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A PLAN
OF
DEVELOPMENT FOR MALAYA
1956—60

Economic Secretariat
Jalan Raja
Kuala Lumpur

FEDERATION OF MALAYA.

THE DEVELOPMENT PLAN AND A CAPITAL EXPENDITURE PROGRAMME FOR 1956/60.

This Memorandum is an attempt to prepare a Development Plan which takes into account Capital and Recurrent Expenditure, works capacity and the question of external assistance. In discussing these it demonstrates the inter-relationship between Development, Defence Planning, the Ordinary and Capital Budgets, Taxation, Loan Policy and P.W.D. capacity.

2. It proposes outline Plans for the Ordinary and Capital Budgets over the period 1956-60. These Plans would require new Taxation yielding $75 millions a year by 1960 and, in addition, External Assistance to the extent of a grant of half the cost of the Emergency for the Ordinary Budget and a loan on special terms of $425 millions for the Capital Budget

3. On this basis the Plans envisage an expansion in Recurrent Expenditure of $70 or at the most $95 millions a year by 1960 and a Capital Programme of $1,100 millions.

4. These Plans are intended to cover both Defence and Development needs. They take note of the recent recommendations of the Armed Forces Council. But the Memorandum shows that there is no prospect of enough money (or even works capacity) being available to carry out all Ministers' proposals by 1960. Policy decisions are therefore required as to Priorities, i.e. the apportionment of prospective resources between the various Ministries. To facilitate this and the discussion of Development Policy certain assumptions are made as to capital expenditure on Defence but these are tentative.

5. These Plans compare with Ministerial bids of $150 millions a year for Recurrent Expenditure and $1,550 millions for Capital Expenditure. Nonetheless they represent the most that can reasonably be contemplated. Thus the higher figure of $95 millions proposed for Recurrent Expenditure may prove attainable only if Rubber never falls below 75¢. Some items in the Capital Programme could not be completed before 1961-62. On the other hand they propose about 30% increase in the rate of capital expenditure recommended by the International Bank Mission Report. The latter's proposals are not considered adequate to meet the needs of the fast growing population.

6. The principal points of argument and also those of policy on which decisions are required are contained in a Summary which is printed on coloured paper and will be found immediately under the Index.

7. A Provisional Plan of Development for the Federation 1956-60 is submitted at the end of the Memorandum.

8. Formal decisions should await the outcome of the London financial talks when the amount of external assistance available should be known. Even then, the actual implementation of the Plans for the Ordinary Budget in particular, and to a lesser extent for the Capital Budget, should be subject to annual review in the light of financial and economic circumstances at the time. In Malaya planning must be flexible and respond to the changing fortunes of its two principal industries.

O A Spencer

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Economic Adviser.

September 1956.
Economic Secretariat.
Kuala Lumpur.

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MEMORANDUM BY THE ECONOMIC ADVISER

DEVELOPMENT PROGRAMME FOR THE FEDERATION OF MALAYA FOR THE PERIOD 1956/60

INDEX

SUMMARY

PAGE

General (i)
The Ordinary Budget 1956-60 (i)
Conclusion Regarding the Ordinary Budget 1956-60 (ii)
The Capital Budget (iii)
The National Debt (iii)
The Size of the Capital Programme which can be carried out by 1960 (v)
The Amount of External Assistance required (v)
The Armed Forces Plan (v)
Policy with regard to Development (vi)
The Provisional Development Plan 1956-60 (vii)
Other Recommendations (vii)
Longer Term Planning and the Next Five Year Period 1961-66 (vii)

INTRODUCTION

Object of Memorandum 1
Summary of Position 1951-55 and at beginning of 1956 1
Summary of Ministerial proposals for the period 1956-60 2
The Expansion of the Armed Forces 3
Competition for Resources between the Armed Forces and the Development Plan 3

PART ONE

HOW BIG A PROGRAMME CAN THE COUNTRY FINANCE FROM ITS OWN RESOURCES 1956-60

The Ordinary Budget and the Capital Budget 4
The Ordinary Budget and Recurrent Expenditure 4
Conclusions regarding the Ordinary Budget 1956-60 5
New Taxation 5
The Outlook for the Capital Budget 1956-60 6
FIRST CONCLUSION 7

PART TWO

EXTERNAL ASSISTANCE AND THE ORDINARY BUDGET

The Form of Assistance 9
The case for help in meeting the Cost of the Emergency 9
The Problem of meeting Recurrent Expenditure 10
SECOND CONCLUSION 11

PART THREE

EXTERNAL ASSISTANCE FOR THE CAPITAL BUDGET

How much can the Government Afford to Borrow?

The Size of the National Debt 13
The Implications of Borrowing 13
How large a Debt can the Country Afford? 13
National Debt: Some International Comparisons 14
Conclusions with regard to the National Debt 14

The Question of Physical Capacity

How Big a Capital Programme can the Government carry out? 14
Comparison with previous performance 1951-55 16
The Capacity of the Public Works Department 16
The Capacity of other Departments 18
Conclusion as to Capital Works Capacity 18
Total Requirements of Capital Money 1956-60 19
The Need for External Assistance 19
The Impact on the National Debt 19
Defence & Development 21
THIRD CONCLUSION 21

PAGE

PART FOUR

THE CAPITAL RESOURCES AVAILABLE FOR DEVELOPMENT

The Surplus Balances as a Source of Capital Money 23
Local Loans 23
Investments by the Currency Commissioners 24
Investments by the P.O.S.B. 24
Overseas Borrowing 24
Treasury Bills and Floating Debt 25
The Establishment of a Central Bank and the use of the Floating Debt 25
The Expenditure Side 25
Loan Expenditure Already Approved 25
Other Capital Expenditure 26
Rubber Replanting 26
Capital Committments in respect of the Armed Forces 26
Expatriate Officers Compensation Scheme etc. 26
Conclusion 28

PART FIVE

QUESTIONS OF POLICY AND PRIORITIES

The Rising Population 30
The Rural Economy 30
The Social Services 30
Health 30
Education 31
Water Supplies 31
Local Government 32
Economic Problems 32
FOURTH CONCLUSION 33
Priority Two 33
Priority Three 33
Priority Four 34
Government Housing 34
Priorities Expressed as Percentage Allocations between Sectors of the Plan 35
The Question of Standards 35
FIFTH CONCLUSION 37

PART SIX

LONGER TERM PLANNING 1958-60

The Cameron Highlands Hydro-Electric Scheme 38
The Trans - Perak Scheme 38
The Railway's Proposals for a Development line on the East Coast 38
Recommendation 38

PART SEVEN

Comparison of the Present Plan with that proposed by the International Bank Mission 39

APPENDIX A

PROGRAMMES OF DEVELOPMENT EXPENDITURE 1956-60

The International Bank Mission Plan 1955-59
Departmental Proposal 1956-60
Provision already made in 1956 Budget
Proposed Plan 1956-60.

LIST OF TABLES

PAGE

Table I - Capital Expenditure: Commitments in Respect of Development Schemes 1956-60 as at 1s January, 1956 2

Table II - Estimates of the Ordinary Budget 1956-60 (Excluding all Capital Items and New Development Schemes in Civil or Defence Sectors) 5

Table III - Revised Estimates of the Ordinary Budget 1956-60 (As in Table II but with provision for new Taxation) 6

Table IV - The Financial outlook for the Capital Budget 1956-60 without Special External Assistance 8

Table V - Revised Plan for the Ordinary Budget 1956-60 (As in Tables II & III but providing for aid from H.M.G., for new services to be financed from recurrent expenditure and for drawing Surplus Balances) 10

Table VI - Additional Recurrent Expenditure requested by 1960 11

Table VII - Revenue Expenditure and Public Debt Charges 15

Table VIII - Actual Capital Expenditure by the Government and Statutory Bodies: 1950-55 17

Table IX - P.W.D. - Total Works Capacity 1956-60 18

Table X - Revised Plan for the Capital Budget 1956-60 20

Table XI - Existing Capital Commitments on Loan Account at 1st January, 1956 27

Table XII - Federation of Malaya: Outlook for the Capital Budget 1956-60 29

Table XIII - Percentage distribution, by Sector of planned public expenditures in some E.C.A.F.E. countries. 36

SECRET

MEMORANDUM BY THE ECONOMIC ADVISER

A PROGRAMME OF CAPITAL EXPENDITURE ON DEVELOPMENT 1956-60

The following paragraphs summarise the principal conclusions. The references in brackets are to paragraphs in the main Memorandum.

SUMMARY

GENERAL

1. Development Planning cannot be considered by itself. It involves the Ordinary and Capital Budgets, Taxation Policy and Loan Programmes. It is also involved in Defence Planning, for both compete for staff, money and materials.(cf. paras. 6 and 7).

2. In Executive Council Paper No. 532/125/56 the Federal Treasury made estimates of the future prospects for revenue and expenditure which are used in this Memorandum.(a) These assumed that the cost of the Emergency would fall by about 10% per annum after 1957, that the price of rubber would fall gradually to 75 cents and then to 65 cents, and that there would be no increases in taxation nor in Government rates of pay, nor in grants to the States. (para. 8).

THE ORDINARY BUDGET 1956-60

3. The prospects for the Ordinary Budget are serious and demand strong policy decisions. Unless Rubber stays above 75 cents(b) and the cost of the Emergency falls rapidly, there will be a series of deficits over the next four years exceeding $400 millions. (para. 9) Ministers' plans however would involve additional recurrent expenditure of about $160 millions a year by 1960, viz:

Armed Forces(c)	$62 millions a year
Education	$58 " " "
Health	$10 " " "
Other Civil Ministries	$14 " " "
Additional Loan Charges(d)	$10 " " "
Total	$154 millions a year

(cf. paras. 5, 6, 16 & Table VI)

4. Fundamentally the Emergency is the main cause of the deficit. The United Kingdom Government should therefore be asked to meet half its cost from 1956. (paras. 10 and 14).

Notes: (a) The Treasury estimates of expenditure included a number of capital items which have been abstracted and transferred to the Capital Budget in this Memorandum.

(b) This must not be counted on so long as synthetic rubber is sold in the U.S.A. at about 60-65 Malayan cents. In March 1954 Rubber fell to 53 3/8 cents.

(c) $71 millions compared with present level of $36 millions a year; $62 millions compared with present approved programme of expansion to $45 millions. Both figures allow for 10% increase in rates of pay (about $9 millions).

(d) For new development Loans over and above existing commitments.

5. Before they discuss this, the U.K. Government will ask what the policy of the Federation Government is with regard to meeting the rest of the prospective deficit and to taxation.

6. The International Bank proposed that $55 millions a year of new Taxation should be raised, but its conclusions regarding the Ordinary Budget were unrealistic because it ignored the cost of the Emergency.

7. The Plan now proposed for the Ordinary Budget 1956-60 is, briefly, that:

(a) the remaining deficits attributable to the Emergency (after allowing for help from H.M.G.) should be met by drawing on the Surplus Balances to the extent of about one-third, or say $125 millions; and

(b) the Government should be prepared to meet all new Recurrent Expenditure on the Development Plan and the Armed Forces Plan by new taxation.
(cf. paras. 14, 15 and 16 and Tables V and VI)

8. It suggests that, pending completion of a Treasury survey on revenue potentialities, a target of $75 millions a year should be set for new Taxation by 1960. This would require widespread increases in Income Tax, Import duties, local rates, Education and Social Service charges. It would affect all classes of the population for there are not enough rich to "soak" to this extent. (para.10).

9. But even taxation of this order will only pay for $70 millions, or at the most, $95 millions of additional recurrent expenditure by 1960. (Attaining the figure of $95 millions would depend on the price of rubber never falling below 75 cents.)(cf. para.14).

CONCLUSION REGARDING THE ORDINARY BUDGET 1956-60.

10. There is therefore no prospect of the Government being able to finance recurrent expenditure programmes of $150 millions a year or more as proposed by Ministers. This is true even if the Emergency stops, since the Plan proposes to finance this, not from current Revenue, but from grants from ~~the~~ U.K. and from the Federation's own accumulated Surplus Balances. (para. 16).

11. The Federal Government should therefore decide without delay on

(a) A Taxation Plan, i.e. a programme for additional taxation which it will aim at raising by 1960; and

(b) A Recurrent Expenditure Plan i.e. provisional programmes for the expansion of recurrent expenditure on Defence and Development which can be financed within the Taxation Plan. (The figure suggested is $70 millions a year by 1960. para.16)

12. These Plans should be implemented annually as part of the normal Budgetary process and in the light of financial conditions prevailing at the time. (para. 16).

13. As part of this exercise Ministers should explore the possibility of making countervailing savings in other recurrent expenditure. In particular consideration should be given to reducing the strength of and expenditure on the Police pari passu with any expansion in the Armed Forces. (para.16).

14. This Plan is illustrated in the Table below. It is drawn up in a way which shows first how it will work out if the Emergency continues as assumed in the Treasury Memorandum and secondly the effect if all expenditure on the Emergency ceased after 1957. It will be noted that even in the latter event the ordinary Budget is unlikely to show any surpluses which could be used to expand recurrent expenditure on the Armed Forces or other services.

PLAN FOR THE ORDINARY BUDGET 1956-60

(As in Tables V of the Main Memorandum and providing for aid from HMG, for new services to be financed from recurrent expenditure and for drawing on the Surplus Balances).

$ Millions.

	Revenue			Expenditure				Aid from HMG	Balance I Surplus + Deficit - To be drawn from surplus Balances	Balance II Assuming No Emergency & No HMG Aid after 1957
	On present basis	New Taxes	Total	On present basis	Emergency	New Services	Total			
1956	710	-	710	560	130	-	690	65	+ 85	+ 85
1957	614	18	632	574	130	25	729	65	- 32	- 32
1958	584	37	621	588	118	35	741	59	- 61	- 2
1959	587	56	643	603	104	50	757	52	- 62	- 10
1960	603	75	678	612	92	70	774	46	- 50	- 4
TOTAL	3,098	186	3,284	2,937	574	180	3,691	287	- 120	+ 37

THE CAPITAL BUDGET

15. The Federal Government is already commited on Capital account to raising about $837 millions. This figure is nearly equal to the estimate of $845 millions as the maximum which might be so raised by 1960 - unless all the Surplus Balances are to be deliberately spent by 1960 and/or the Government is to "raid" the Currency Reserves. Neither of these courses is recommended however, until a Central Bank has been established for some years. (Part Four, passim). This assumes that H.M.G. will help with the Emergency. If they do not then more of the Surplus Balances will have to be used up on it and that will leave less for the Capital Budget to draw upon. Details are given in the next Table.

16. The Government cannot therefore be advised to commit itself in advance to any new major long term programmes solely from its own resources. New Capital expenditure for Defence, Education, Health and other civil needs should therefore be covered by external help. (para.12)

THE NATIONAL DEBT

17. The National Debt is a growing problem. It stands now at $627 millions, but existing commitments will raise this to about $1,200 millions by 1960.

FEDERATION OF MALAYA: OUTLOOK FOR THE CAPITAL BUDGET 1956-60.

(cf. TABLE XII)

$ Millions

Income & Resources			
1. Unexpended Balance of the 1949 & 1951 Loans			20
2. General Revenue & Surplus Balance			
Available at 1.Jan.1956		365	
Deduct:			
(i) Revenue Deficits 56/60	125		
(ii) Reserve to be kept at 31.Dec.60	120	245	120
3. Floating Debt Operations			
At 1.June.56		150	
Deduct Funding Operations & add new borrowings		25	125
4. Local Loans			
Brunei 1956		40	
P.O.S.B. 1957-60		70	
EPF etc.etc. 1956-60		350	460
5. Overseas Loans			
London Market etc. £10 millions			85
6. C.D.W. Allocations			35
TOTAL:			845

Expenditure & Commitments		
1. Loan Expenditures approved & raised 1949 & 1951 Loans		20
2. Loan Expenditures approved but not yet raised		
(i) 1953 & 1955 Loan Ordinances	221	
(ii) Loan expenditure charged to Advances in 1956 printed Estimates	144	
(iii) Loan Expenditure charged to Advances in 1956 Supplementary Budget	100	465
3. Capital Expenditure at present charged to Revenue		
(i) Capital items (PWNR, DIDNR, Replanting etc.) in 1956 Estimates, excluded from Tables II & III	100	
(ii) Rubber Replanting 1957-60	137+	237
4. Other Capital Expenditure		
(i) Expatriate compensation	75+	
(ii) Pensions Commutation Scheme	20+	
(iii) Armed Forces (existing programme)	20+	115
5. SUB-TOTAL: CAPITAL COMMITMENTS		837
6. Balance available for new Schemes 1957-60		8
TOTAL:		845

+ = Rough Estimates.

On this the net annual service charges* will rise to at least $60 millions, compared with the present figure of $38 millions. This will be getting near 10% of National Revenue. By international standards the latter figure is high. Out of 42 countries for which United Nations statistics are available, only 11 have annual debt charges which exceed 10% of Revenue and half of these are Latin American States with a bad record for over-borrowing and default. (Paras. 18, 19, 20 and 21).

18. It is therefore recommended that the Government should limit further borrowing so that NET annual service charges falling on the Treasury do not exceed $70 to $75 millions a year by 1960. (Para.22).

THE SIZE OF THE CAPITAL PROGRAMME WHICH CAN BE CARRIED OUT BY 1960

19. As to capacity, the most optimistic possible figure for both Government and Statutory bodies for the period 1956-60 is put at $1,100 millions. This should include both Defence and Civil requirements. It compares with $728 millions actually spent in 1951-55 (of which $95 millions went on Defence and the Emergency) and with the latest Ministerial requirements of about $1,550 millions (including $170 millions for Defence). It would involve achieving an average of ten per cent better performance than that of the best single previous year (viz. about $170 millions in 1952) plus Rubber Replanting. (Paras. 24, 25, 27, 28; Table VIII).

20. Planning for an ambitious programme of this size can be justified politically, but in practice it will probably take 6 or 7 years (i.e. 1961-2) to complete all projects. It may take longer if many expatriate officers leave before replacements are available. (Para. 28).

THE AMOUNT OF EXTERNAL ASSISTANCE REQUIRED

21. A Capital Works and Development Programme of this size is likely to require external assistance of $426 millions. Details of this calculation are shown in the next Table. (Paras. 29, 30 and Table X).

22. At 5½% interest and 1% Sinking Fund, a loan of $426 millions would cost $27½ millions a year. This would raise net debt charges to $80-90 millions and is more than the country should attempt by 1960. (Para. 31).

23. If such a sum is sought, therefore, part (e.g. any help for Defence) should be asked for as an interest-free loan or outright grant, and the rest on special terms - say 3% for 40 years. (Para. 31).

THE ARMED FORCES PLAN

24. The size of the Armed Forces Plan must be decided at the same time as that of the Development Plan. The more that is spent on the Armed Forces, the less there will be for Development - and vice-versa. This is true both of Capital and Recurrent Expenditure, and also of P.W.D. works capacity. For the purposes of drafting the Provisional Development Plan it is tentatively assumed that the proposed Capital Programme of $1,100 millions may be divided as to $1,000 millions for Development and $100 millions for the Armed Forces and other unforeseen needs (including, for example, any part of the cost of the move of the State capital to Klang which cannot be met from the proposed allocations for Housing and offices). The P.W.D. programme has been tentatively divided as to $300 millions for Development and $60 millions for the Armed Forces. None of these figures is intended to apply to or include any free gifts or loans of military stores, equipment or installations which may be received in kind from the United Kingdom Government.

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* After crediting repayments from statutory bodies in respect of sums re-lent to them.

Revised to provide for effect
amount of external assista

Income & Resources			
1. Unexpended balances of Loans already raised			
1949 & 1951 Loans (balance of)			20
2. General Revenue & Surplus Balances			
At 1st Jan. 1956		365	
Deduct:			
Revenue Deficits Revised 1956/60	125		
Proposed Reserve at 31.Dec.60	120	245	120
3. Floating Debt Operations			
As set out in Table IV and Part IV			125
4. Local Loans			
P.O.S.B.		70	
E.P.F. & others		390	460
5. Overseas Loans			
London Market (say £10 millions)			85
6. C.D. & W. Allocation			35
7. SUB-TOTAL: RESOURCES AVAILABLE			845
8. EXTERNAL AID REQUIRED			426
TOTAL			1,271

TABLE X.

REVISED PLAN FOR THE CAPITAL BUDGET: 1956-60.

or effects of higher taxation and assistance from HMG. in respect of the Emergency and to show the
l assistance required on capital account to carry out a total capital programme including both
civil and defence sectors, of $1,100 millions.

$ Millions.

	Expenditure & Commitments	1956-60 Actual Expenditure on Capital Works		1956-60 Finance Required	
	1. Loan Expenditure already approved & raised but not yet spent				
20	1949 & 1951 Loans (balance of)		20		20
	2. Loan Expenditure approved in 1956 Budget but not yet raised				
	(i) 1953 & 1955 Loan Ordinance	150		221	
	(ii) Advances pending raising of new Loans (Appx.VIII Pt.2)	139		144	
	(iii) Advance pending raising of new Loans (Suppy.Budget, July 1956)	100	389	100	465
120	3. Other Capital Expenditure already committed on Revenue Account				
125	(i) PWMR., DIOMR., Rubber Replanting etc. shown in Revenue side of 1956 Estimates but excluded from forecasts used in Tables II & III & V	100		100	
	(ii) Rubber Replanting Ord. Estimated commitments 1957-60	137	237	137	237
460	4. Financial Schemes				
	(i) Expatriate Compensation (estimated)			75	
85	(ii) Pensions Commutation (estimated)			20	95
35	5. Armed Forces				
	Present Programme		20		20
845	6. SUB-TOTAL: EXISTING COMMITMENTS		~~646~~666		837
426	7. NEW PROGRAMMES (DEFENCE AND CIVIL DEVELOPMENT) 1957-60		434		434
,271	TOTAL		1,100		1,271

POLICY WITH REGARD TO DEVELOPMENT

25. The prime need is for more Revenue - more than new Taxation can yield. Without it the Development Plan will grind slowly down. Correlated with this is the need to provide employment for the adult population which will expand very rapidly after 1960. (Para.50). The principal object of public policy must therefore be to increase National Income, output and wealth - and to do so in directions which will contribute substantial Revenue to the Budget. This means Rubber, Tin and other Mining, new Industries and the opening up of new Land. Unfortunately rice cultivation and peasant crops, other than Rubber, do not (and cannot, on the small holdings at present prevailing) contribute much to Federal Revenue to finance the Development Plan. (Para.57) although their expansion and improvement is admittedly itself a very important matter.

26. The Development Plan should therefore be framed around the following broad allocations and priorities.

A. ALLOCATION OF CAPITAL RESOURCES

(Para. 63)

Economic Sector	60%
Social Services Sector	30%
Government Sector	10%

Although this would involve a cut in the programme for the Social Services, it will, according to figures published by ECAFE, still accord the latter by far the highest proportionate share of the national programme of any country in Asia. (Table XIII).

B. PRIORITIES

1. Replanting and New Planting of Rubber both Estates and smallholdings. Raising and diversifying the output of the peasant farmer and fisherman. Maintenance and expansion of output of the Mining industry. The stimulation of Industrial development. The opening up of new Agricultural land. The formulation of a sound policy of Land Utilisation. Provision of new communications in proven or chosen areas of new development. (Para. 58).
The North Klang Straits project (already approved).

II. Basic improvements in Health, Education and Social Services (including Housing and Municipal Development) and in phased programmes over at least 10 years. It should be accepted that not all urgent needs can be met in the first 5 years. Emphasis on new services should be in the rural areas. Arrears of maintenance should take precedence over new Capital works particularly in urban areas. (Para. 59).

III. Modernisation and improvement of existing communications (Roads, Rail, Civil Aviation) within limits of Resources available. New Power development. This will move up to Priority I after 1958 and in the next five year period. Until then present allocations should be sufficient. (Para.60).

IV. Government Sector. Police Stations and large Post Offices, Offices, Courts, Housing, Quarters and Lines. (Para.61).

V. Other projects.

THE PROVISIONAL DEVELOPMENT PLAN 1956-60

27. Following these proposed priorities and allocations, a "Provisional Plan of Development for the Federation 1956-60" is submitted for consideration. (See Table at the end of this Summary). After approval and/or amendment it is suggested that Ministries should frame specific proposals within the provisional allocation. States and Settlements should be informed of these. Final decisions must await the outcome of the request for external assistance. (Para.33 and Part Five passim).

28. The P.W.D. share of the Plan should be limited to $360 millions including Defence Works. In addition a maximum of $50 millions should be planned for works to be put out to "outside" architects and contractors and this should be used mainly for Education and Health projects.

OTHER RECOMMENDATIONS

29. To facilitate the various financial operations involved in such a large Capital Budget, the Central Bank should be established by 1958.(Para.48).

30. Water supplies should be put on a better financial basis, rates being raised where necessary. State Water Boards, with machinery for Inter-State consultation at Federal level, should be encouraged. (Para. 55).

31. Government policy with regard to Housing of its Staff should be reviewed. Heavy expenditures such as those now being incurred cannot be affored in the future. (Para. 62).

32. Executive Council should direct specifically that all constructional works should be designed and executed to the most economical and austere standards compatible with efficient operation. (Para. 65).

LONGER TERM PLANNING AND THE NEXT FIVE YEAR PERIOD 1961-66

33. There are three major projects outside the Provisional Plan for 1956-60 which, if embarked upon, will run over well into the next five-year period 1961-66 viz:

(i)	The Cameron Highlands Hydro-electric Scheme (Phase I)	$120 million
(ii)	The Trans-Perak Irrigation Scheme (D. & I. works only)	$ 50 "
(iii)	Proposal by the Malayan Railway for an East Coast Development line	$ 15-25 "

These are beyond the capacity of the Federal Government. Only (1) has been examined in detail. (Para. 66).

34. It is proposed that these schemes should be examined further by the Federal Government and the assistance of the United Kingdom Government sought with a view (if approved) to procuring financial assistance from the International Bank and/or the Colonial Development Corporation. (Para.67).

35. Although these Plans are ambitious they do not go beyond what is necessary to meet the country's basic needs for economic development and improved social services. The plans proposed by the International Bank Mission were not adequate. They accepted by implication the present rate of Government capital expenditure which is inadequate to meet the needs of the growing population. (Paras. 68 and 69).

September, 1956. O.A. SPENCER.

FEDERATION OF MALAYA

			I.B.R.D. PLAN 1955/1959		DEPARTMENTAL BIDS 1956/1960		
			$	%	$	%	A.R.+
A. ECONOMIC DEVELOPMENT							
1. Land & Natural Resources							
	M. AGRICULTURE:	D. & I.	55.0	7.1	66.4	4.8	0.2
		Other	12.9	1.7	17.7	1.3	4.3
	M.C. & I. :	Rubber Replanting	125.0	16.1	160.0	11.6	-
		RIDA & Industry	16.0	2.1	13.4	1.0	-
	M.N.R. & L.G. :	Land Development	2.6	0.3	28.8	2.1	-
		Miscellaneous	7.5	1.0	12.7	0.9	2.9
		SUB-TOTAL	219.0	28.3	299.0	21.7	7.4
2. Communications							
	M. TRANSPORT :	Roads	94.3	12.0	131.0	9.5	2.5
		Railway	23.9	3.1	68.7	5.0	n.r.e.
		Ports	32.4	4.2	46.5	3.4	n.r.e.
		Other	2.1	0.3	15.8	1.1	0.5
	M.P. & T. :	Posts	4.5	0.6	4.5	0.3	n.r.e.
		Telecoms.	17.6	2.3	66.8	4.9	n.r.e.
		SUB-TOTAL	174.8	22.5	333.3	24.2	3.0
3. Fuel & Power							
	M.C. & I. :	C.E.B.	71.6	9.2	59.0	4.3	-
	M.N.R. & L.G. :	Penang	15.2	1.9	21.1	1.5	-
		SUB-TOTAL	86.8	11.1	80.1	5.8	-

SUMMARY.

FEDERATION OF MALAYA: PROGRAMME OF DEVELOPMENT EXPENDITURE 1956-60

		I. B. R. D. PLAN 1955/1959		DEPARTMENTAL BIDS 1956/1960			ALREADY PROVIDED 1956	PROPOSED PLAN 1956/60			PWD SHARE
		$	%	$	%	A. R. +		NEW MONEY 57/60	TOTAL	%	
DEVELOPMENT											
tural Resources											
LTURE:	D. & I.	55.0	7.1	66.4	4.8	0.2	27.7	32.3	60.0	6.0	-
	Other	12.9	1.7	17.7	1.3	4.3	5.0	8.0	13.0	1.3	3.9
:	Rubber Replanting	125.0	16.1	160.0	11.6	-	23.0	137.0	160.0	16.0	-
	RIDA & Industry	16.0	2.1	13.4	1.0	-	3.4	10.0	13.4	1.3	-
L. G. :	Land Development	2.6	0.3	28.8	2.1	-	10.0	5.0	15.0	1.5	-
	Miscellaneous	7.5	1.0	12.7	0.9	2.9	6.2	5.2	11.4	1.1	1.8
	SUB-TOTAL	219.0	28.3	299.0	21.7	7.4	75.3	197.5	272.8	27.2	5.7
tions											
ORT :	Roads	94.3	12.0	131.0	9.5	2.5	124.2	-49.2	75.0	7.5	62.0
	Railway	23.9	3.1	68.7	5.0	n. r. e.	27.6	32.4	60.0	6.0	-
	Ports	32.4	4.2	46.5	3.4	n. r. e.	37.5	7.5	45.0	4.5	0.9 +
	Other	2.1	0.3	15.8	1.1	0.5	2.2	12.7	14.9	1.5	4.6
:	Posts	4.5	0.6	4.5	0.3	n. r. e.	0.7	3.8	4.5	0.4	2.4
	Telecoms.	17.6	2.3	66.8	4.9	n. r. e.	14.9	40.1	55.0	5.5	2.0
	SUB-TOTAL	174.8	22.5	333.3	24.2	3.0	207.1	47.3	254.4	25.4	71.9
er											
:	C. E. B.	71.6	9.2	59.0	4.3	-	34.0	25.0	59.0	5.9	-
G. :	Penang	15.2	1.9	21.1	1.5	-	15.0	6.1	21.1	2.1	-
	SUB-TOTAL	86.8	11.1	80.1	5.8	-	49.0	31.1	80.1	8.0	-

SUMMARY.

RATION OF MALAYA: PROGRAMME OF DEVELOPMENT EXPENDITURE 1956-60

RTMENTAL BIDS 6/1960		ALREADY PROVIDED 1956	PROPOSED PLAN 1956/60			PWD SHARE	NOTES.
$	A.R.+		NEW MONEY 57/60	TOTAL	%		All figures are in $ millions. "A.R.+" = Increase in annually recurrent expenditure by 1960. "n.a." = Not available. "n.r.e." = Net revenue earning. "m" = Maintenance costs only.
4.8	0.2	27.7	32.3	60.0	6.0	-	Agric., Forests, Fisheries, Co-op., Vet.,
1.3	4.3	5.0	8.0	13.0	1.3	3.9	As already approved.
11.6	-	23.0	137.0	160.0	16.0	-	RIDA, Industrial Dev. Corpn. and Research. Assumes RIDA will still receive $4 m. p.a. under OCSE.
1.0	-	3.4	10.0	13.4	1.3	-	
2.1	-	10.0	5.0	15.0	1.5	-	For Land Dev. Authority & State proposals($18.8 m.)
0.9	2.9	6.2	5.2	11.4	1.1	1.8	Surveys, Land Use Survey, Topo-Suvey, Geol. Survey, Aeromag. Survey, Mines.
21.7	7.4	75.3	197.5	272.8	27.2	5.7	
9.5	2.5	124.2	-49.2	75.0	7.5	62.0	Roads and Bridges. Allocation assumes $10.0 m. for plant.
5.0	n.r.e.	27.6	32.4	60.0	6.0	-	
3.4	n.r.e.	37.5	7.5	45.0	4.5	0.9 +	Civil Avn., Met., Marine, Road Tpt. Dept. (Allocation includes extn. to K.L. Airport $6.0 m.)
1.1	0.5	2.2	12.7	14.9	1.5	4.6	
0.3	n.r.e.	0.7	3.8	4.5	0.4	2.4	Neither bid nor allocation includes new G.P.O. which is dealt with under Govt. Sector as it may include other offices.
4.9	n.r.e.	14.9	40.1	55.0	5.5	2.0	
24.2	3.0	207.1	47.3	254.4	25.4	71.9	
4.3	-	34.0	25.0	59.0	5.9	-	CEB: Allocation includes $25 m. for Malayan contribn. to Cameron Highlands scheme Phase I 1958 onwards.
1.5	-	15.0	6.1	21.1	2.1	-	
5.8	-	49.0	31.1	80.1	8.0	-	

		I. B. R. D. PLAN 1955/1959		DEPARTMENTAL BIDS 1956/1960			ALREADY PROVIDED 1956	
		$	%	$	%	A. R. +		NE MON 57/
TOTAL: ECONOMIC SECTOR		480.6	61.9	712.4	51.7	10.4	331.4	275
B. SOCIAL DEVELOPMENT								
1. Education								
M. EDUCATION :	General	54.0	7.0	125.0	9.1	58.0	38.2	51.
	University	3.0	0.4	3.0	0.2	n. a.	3.0	2
	Miscellaneous	1.6	0.2	0.4	-	n. a.	-	0.
	SUB-TOTAL	58.6	7.6	128.4	9.3	58.0	41.2	54
2. Health & Social Welfare etc.								
M. H. & S. W. :	Medical	37.0	4.8	57.5	4.2	10.2	4.9	45
	Social Welfare	3.1	0.4	3.6	0.3	0.7	0.8	2
M. LAB. :	Labour	1.0	0.1	0.5	-	0.7	0.1	0.
	SUB-TOTAL	41.1	5.3	61.6	4.5	11.6	5.8	47.
3. Local Govt. Housing & Miscellaneous.								
M. N. R. & L. G. :	Housing	17.0	2.2	62.8	4.6	0.3	22.5	10.
	Local Govt. etc.	22.5	2.9	61.9	4.5	0.1	25.4	25.
C. M. & M. H. A. :	Miscellaneous	3.8	0.5	7.3	0.5	0.4	1.1	6.
	SUB-TOTAL	43.3	5.6	132.0	9.6	0.8	49.0	42.

PARTMENTAL BIDS 1956/1960		ALREADY PROVID-ED 1956	PROPOSED PLAN 1956/60			PWD SHARE	
%	A.R.+		NEW MONEY 57/60	TOTAL	%		
51.7	10.4	331.4	275.9	607.3	60.6	77.6	
9.1	58.0	38.2	51.8	90.0	9.0	55.0	Primary, Secondary and Technical.
0.2	n.a.	3.0	2.0	5.0	0.5	-	Boy Scouts, Adult Education etc.
-	n.a.	-	0.4	0.4	-	0.1	
9.3	58.0	41.2	54.2	95.4	9.5	55.0	
4.2	10.2	4.9	45.1	50.0	5.0	25.0	
0.3	0.7	0.8	2.2	3.0	0.3	3.0	
-	0.7	0.1	0.4	0.5	-	0.5	(includes A.R.+ for machinery).
4.5	11.6	5.8	47.7	53.5	5.3	28.5	
4.6	0.3	22.5	10.3	32.8	3.3	0.1	Housing Trust, Low Cost Housing, Town Planning.
4.5	0.1	25.4	25.7	51.1	5.1	2.0	Municipalities, Petaling Jaya, Town Boards and Councils, Fire Services. (Capital grants for local Councils excluded; carried under OCAR).
0.5	0.4	1.1	6.2	7.3	0.7	3.0	Census, COL Survey, Stats., Broadcasting, Film Unit, Merdeka Stadium.
9.6	0.8	49.0	42.2	91.2	9.1	5.1	

		I.B.R.D. PLAN 1955/1959		DEPARTMENTAL BIDS 1956/1960			ALREADY PROVIDED 1956	PR
		$	%	$	%	A.R.+		NEW MONEY 57/60
B. SOCIAL DEVELOPMENT (contd.)								
4. Water & Sanitation								
M. WKS. :	K.L. Water Supply	39.0	5.0	16.6	1.2	-	8.8	7.8
	Other Water Supplies			103.7	7.5	-	11.8	23.2
	Sewerage			25.6	1.9	-	-	5.0
M. N. R. & L. G. :	K.L. Sewerage			9.9	0.7	-	9.9	-
	SUB-TOTAL	39.0	5.0	155.8	11.3	-	30.5	36.0
TOTAL: SOCIAL SECTOR		182.0	23.5	477.8	34.7	70.4	126.5	180.1
C. GOVERNMENT SECTOR								
A.G. :	Justice (Courts)	35.0	4.5	2.7	0.2	m	-	1.0
M.H.A. :	Justice (Prisons)			5.0	0.4	m	-	-
M.I.D. & S. :	Justice (Police)			36.5	2.7	m	14.0	6.0
M. WORKS :	Admin. (Offices)			23.1	1.7	m	3.9	11.1
	Housing			20.7	1.5	m	17.2	2.0
	Labour Lines			31.0	2.3	m	0.8	15.0
	P.W.D. Workshops	5.0	0.6	5.3	0.4	-	0.3	3.0
M. FINANCE :	Customs	-		11.0	0.8	m	2.8	2.2
C.M. :	Selangor Capital	-		(27.0)	(2.0)	-	-	-
	Information	-		0.2	-	-	0.2	-
CH. SECRETARY :	Government Printer	-		0.6	-	-	-	0.6
TOTAL GOVERNMENT SECTOR:		40.0	5.1	163.1	12.0	m	39.2	40.9

RTMENTAL IDS /1960		ALREADY PROVIDED 1956	PROPOSED PLAN 1956/60			PWD SHARE	
%	A.R.+		NEW MONEY 57/60	TOTAL	%		
1.2	-	8.8	7.8	16.6	1.7	16.6	
7.5	-	11.8	23.2	35.0	3.5	35.0	
1.9	-	-	5.0	5.0	0.5	5.0	
0.7	-	9.9	-	9.9	1.0	-	
1.3	-	30.5	36.0	66.5	6.6	56.6	
4.7	70.4	126.5	180.1	306.6	30.5	145.2	
0.2	m	-	1.0	1.0	0.1	1.0	
0.4	m	-	-	-	-	-	
2.7	m	14.0	6.0	20.0	2.0	20.0	Bid for offices includes all known composite office bids i.e. in K.L., Ipoh, Penang, Kuantan, Alor Star, Malacca, Seremban, Kota Bharu, Kuala Trengganu. Includes G.P.O. K.L. and Survey Department H.Q.
.7	m	3.9	11.1	15.0	1.5	15.0	
.5	m	17.2	2.0	19.2	1.9	19.2	
.3	m	0.8	15.0	15.8	1.6	15.8	
.4	-	0.3	3.0	3.3	0.3	2.5	
.8	m	2.8	2.2	5.0	0.5	4.3	Offices, Quarters and Launches.
.0)	-	-	-	-	-	(?)	Cost not known. Provision if approved to come from unallocated reserve.
	-	0.2	-	0.2	-	-	
	-	-	0.6	0.6	0.1	0.2	
.0	m	39.2	40.9	80.1	8.0	78.0	

	I.B.R.D. PLAN 1955/1959		DEPARTMENTAL BIDS 1956/1960		
	$	%	$	%	A.R.+
D. STATE SCHEMES					
Miscellaneous	-	-	20.6	1.5	-
GRAND TOTAL: DEVELOPMENT PLAN	702.6	90.5	1,373.9	100.0	80.8
E. RESERVE FOR ARMED FORCES & UNFORESEEN	74.0	9.5	173.5	-	61.0
GRAND TOTAL: CAPITAL PROGRAMME	776.6	100.0	1,547.4	-	141.8

DEPARTMENTAL BIDS 1956/1960			ALREADY PROVIDED 1956	PROPOSED PLAN 1956/60			PWD SHARE	
$	%	A.R.+		NEW MONEY 57/60	TOTAL	%		
20.6	1.5	-	-	10.0	10.0	1.0	(?)	Excludes State bids for roads and land development, which have been shown under Ministerial headings.
73.9	100.0	80.8	497.1	506.9	1,004.0	100.0	300.8	
73.5	-	61.0	-	100.0	100.0	-	60.0	$74 m. includes IBRD Allocn. of $14 m. for Resettlement
47.4	-	141.8	497.1	606.9	1,104.0	-	350.8	

SECRET

MEMORANDUM BY THE ECONOMIC ADVISER
A PUBLIC DEVELOPMENT PROGRAMME FOR THE FEDERATION OF MALAYA FOR THE PERIOD 1956/60

INTRODUCTION

OBJECT OF MEMORANDUM

1. The object of this memorandum is to propose in outline a development programme for capital works and public services to be undertaken or financed by the Federal Government during the period 1956/60. It is thus confined in effect mainly to consideration of the problems of and investment in what is usually known as the Public Sector of the economy. This does not mean that the Private Sector (viz. the needs and role of private enterprise) has been overlooked: on the contrary, many of the policies discussed later (e.g. those relating to Rubber Replanting, Industrial Development, Land Development and the improvement of communications) are deliberately designed to influence and assist private and individual investment and development. But the National Income, Balance of Payment and other economic studies required for forecasting in the private sector are not yet available in Malaya in sufficient detail to permit the preparation of a more comprehensive Plan of Development covering both private and public sectors of the economy. It is indeed one of the objects of the present Plan to provide, through a strengthening of the Government Statistical services, more economic surveys and intelligence for this purpose.

SUMMARY OF POSITION 1951-55 AND AT BEGINNING OF 1956

2. During the period 1951-55 capital expenditure on civil development by the Government and statutory bodies totalled some $730 millions including $95 millions on resettlement. On Loan account $264 millions were raised by Long Term borrowings during the same period. (1)

3. The financial position on capital and loan account at the beginning of 1956 was:

(i) Surplus Revenue Balances "available" to the Government amounted to $365 millions;

(ii) The National Debt amounted to $627 millions; of this $518 millions took the form of Funded Debt (i.e. Long Term Loans) and $109 millions were in Floating Debt (i.e. Treasury Bills and Treasury Deposit Receipts);

(iii) The annual service charges on this Debt in 1956 were estimated at $38 millions, being $34 millions for the Funded debt and $4 millions for the Floating Debt. This was equivalent to about 5% of estimated Federal Revenue for the year;

(iv) The Government had committed itself by law to about $646 millions of capital expenditure on Development projects of various kinds during the period 1956-60

Note (1) This figure includes a $100 million Loan raised and spent in 1952/53 on the Emergency, and a special Loan of $30 millions from the Singapore Government for the same purpose. It does not however include the Pan-Malayan War Damage Compensation Loan of $139 millions from the U.K. Government. For details of capital expenditure 1951-55 see Table VIII below.

Details are summarised in Table I below.

TABLE I

CAPITAL EXPENDITURE: COMMITMENTS IN RESPECT OF DEVELOPMENT SCHEMES 1956-60 AS AT 1ST JANUARY, 1956

		$ Millions	$ Millions
A. Loan Expenditure Votes (or revoted) in 1956 Budget:			
1. 1949 and 1951 Loan Ordinances (1956 Budget Appx. VI-VII)		20	
2. 1953 and 1955 Loan Ordinances (Appx. VIII Pt.1)		150	
3. Expenditure voted but charged to Advances pending raising of loans (Appx. VIII Pt.2)		139	
4. Expenditure voted but charged to Advances pending raising of Loans, in Supplementary Budget, July 1956		100	409
B. Capital Expenditures approved but at present charged to Revenue			
1. F.W.N.R., D.I.D.N.R., Rubber Replanting and other capital items shown in "Revenue" sections of printed Estimates for 1956		100	
2. Rubber Replanting Ordinance: estimate of statutory commitments 1957-60	(2)	137	237
		TOTAL	646
Of which the printed Estimates for 1956 actually provide			509

The above Table relates only to expenditure and commitments in respect of Economic and Social Development. There are of course other commitments for the compensation of expatriate officers and for Defence. These will be discussed later.

SUMMARY OF MINISTERIAL PROPOSALS FOR THE PERIOD 1956-60

4. Since the establishment of the Economic Committee of Executive Council in April 1956 Ministers have been reviewing the development plans and policies of their Department in the light of their Election Programme, the International Bank Mission Report and other reports by Legislative Council or Departmental Committees. This process of review is not yet complete, but it has progressed sufficiently for Ministers to indicate to the Economic Secretariat the likely magnitude and general outline of their requirements. In summary the programmes of Capital Expenditure proposed by Civil Ministries for the period 1956-60 total nearly $1,400 millions. This figure includes the $509 millions already provided in the 1956 Budget mentioned above; in other words Ministers propose new and additional capital expenditure of about $900 millions during

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Note (2) The total commitments under this Ordinance are $280 millions spread over 12 years ending in 1967.

the period 1957-60. On the Recurrent Expenditure side, these Ministerial programmes would involve additional expenditure by 1960 of about $80 millions a year, of which Education would account for $58 millions, Health for $10 millions and all other Ministries for $12 millions. These figures for capital expenditure are almost double those recommended by the International Bank Mission viz. $775 millions. The reasons for this will be discussed later. As to Recurrent Expenditure these bids exceed the recommendations of the Mission by about $12 millions, most of which is attributable to the recommendations of the Education Committee Report. It must be noted however that the International Bank Mission's recommendations all relate to a five year period from 1955-59 whereas the Plans discussed in this Memorandum cover the period 1956-60.

THE EXPANSION OF THE ARMED FORCES

5. The programmes mentioned above do not include the requirements of the Emergency or the Regular Armed Forces. The former is currently costing about $130 millions a year but the Treasury estimates used in this memorandum have assumed that this expenditure will gradually decline after 1957. The recurrent cost of the regular Forces is at present $36 millions a year, but there is an approved programme of expansion which would raise this latter figure to $45 millions a year and involve capital expenditure of over $80 millions of which however $62½ millions has been promised by the U.K. Government leaving some $20 millions to be found by the Federation Government. Recently however further expansion of the Armed Forces has been under discussion in the light of the approach of Independence. The Armed Forces Council has now recommended a programme involving Capital Expenditure of about $173 millions (3) and recurrent expenditure of $97 millions a year by about 1960/61 at current rates of pay. But it is clear that the latter will have to be revised and the real figure may well be nearer $107 millions.

COMPETITION FOR RESOURCES BETWEEN THE ARMED FORCES AND THE DEVELOPMENT PLAN

6. Clearly the expansion of the Armed Forces is going to compete with the Development Plan for men, money and materials. This competition will be most acute in the field of recurrent expenditure since (as will be shown later) this is certain to involve new and increased taxation. But it will also appear in connection with capital expenditure and works capacity. The magnitude of the two Plans, that is the Development Plan and the Defence or Armed Forces Plan must therefore be considered and decided together.

Note (3) $142 millions for Phase I and the balance for Phase II. It would seem that about $90 millions of this would fall on the P.W.D. to be carried out.

PART ONE

HOW BIG A PROGRAMME CAN THE COUNTRY FINANCE FROM ITS OWN RESOURCES 1956 - 60

THE ORDINARY BUDGET AND THE CAPITAL BUDGET

7. Having some idea from paragraphs 4 and 5 of the size of the Civil and Militray Programmes which Ministers consider necessary, the next question is how much the country is likely to be able to afford to carry out. In this connection any Development Plan has two aspects viz. its impact on Recurrent Expenditure and its impact on Capital Expenditure. In the past the Federation Budget has not distinguished rigorously between these, but it is intended to do so as far as possible in future. To this end the Estimates will consist in effect of two Sectors, the Ordinary Budget and the Capital Budget. The Ordinary Budget will show on one side all Ordinary and Recurrent Revenue, and on the other all Ordinary, Recurrent and continuing Expenditure. The Capital Budget will be concerned with non-recurrent items; that is on the one side, with money raised by Loans and Capital Grants, or deliberately appropriated from Revenue and/or the Surplus Balances to finance capital works; and on the other with money spent on capital works and schemes and other non-recurrent items. This will facilitate better control of Capital expenditure; it will also show more clearly whether or not the Ordinary Budget is really in balance. For the purposes of development planning it is therefore necessary to examine the prospects and possibilities on both the Ordinary Budget and the Capital Budget. This will now be done.

THE ORDINARY BUDGET AND RECURRENT EXPENDITURE

8. All estimates of the future Ordinary Budget of the Federation are dominated by two unpredictables - the cost of the Emergency and the price of Rubber. However the attempt must be made, and to this end the Treasury submitted certain estimates to Executive Council (Ex.Co.Paper No.532/125/56). The principal assumptions made were that after 1957 the cost of the Emergency would fall by 10% annually and that the price of Rubber would fall first to about 75 cents and then to about 65 cents a lb; that the price of Tin, thanks to the Buffer Stock Scheme, would average about $350 a picul ($700 a ton); that there would be no new taxation on the one hand nor any further increases in Government salaries and wages nor in grants to the States on the other. On the revenue side, although both Rubber and Tin prices have so far remained at higher levels, these estimates cannot be regarded as pessimistic. Synthetic rubbers, with which natural must compete, are sold in the U.S.A. at the equivalent of 57 to 69 Malayan cents a lb. according to grade. Freight and insurance from Malaya will take about 5 cents off that if one is calculating the f.o.b. equivalent here. And in March 1954 the f.o.b. price fell as low as 53 3/8 cents. And in the case of Tin, once strategic or special purchases cease, and assuming that the risk of war recedes, there is still a risk of a commercial surplus appearing of production over consumption which is likely to depress prices to some extent - subject of course to the effect of the International Tin Agreement. As to the assumptions regarding expenditure these are very conservative. In fact some increase in rates of pay for the Armed Forces is inevitable, while daily rated staff are already expressing discontent with last year's increase. There may also have to be some increases in the grants to States. Table II below reproduces these Treasury estimates in a modified form which excludes from the expenditure side any Capital expenditure, even though the item may at present be charged to Revenue (viz: Rubber Replanting, P.W.N.R., D.I.D.N.R.), and also any NEW Recurrent expenditure on Education, Health, or Defence. In other words it attempts to show the true prospective level of the country's Ordinary Revenue and Expenditure as at present committed - including the Emergency, but omitting all capital or development items and shorn of all new recurrent expenditure either for civil needs or for the regular Forces.

TABLE II.

ESTIMATES OF THE ORDINARY BUDGET 1956-60.

(Excluding All Capital Items and New Development Schemes in Civil or Defence Sectors)

$ Millions

	Revenue	Expenditure		Deficit (-) or Surplus (+)
	On present basis	Emergency Element	Total	
1956	710	130	690	+ 20
1957	614	130	704	- 90
1958	584	118	706	- 122
1959	587	104	707	- 120
1960	603	92	704	- 101
TOTAL	3,098	574	3,511	- 413

CONCLUSIONS REGARDING THE ORDINARY BUDGET 1956-60

9. It will be seen that the removal from the Expenditure side of capital items, such as P.W.N.R., Replanting and D.I.D.N.R., at present charged to Revenue enables the 1956 Estimates to show a small surplus of $20 millions compared with the deficit of nearly $50 millions shown in the printed Estimates. Notwithstanding this, this Table shows that (on the assumptions made) the Government is likely to face a series of substantial deficits during the period 1957-60 of the order of $100 millions a year or say $400 millions in all. These would absorb the entire surplus balances of the country before 1960.

NEW TAXATION

10. Can this gap be covered by new Taxation?

The International Bank Mission estimated that additional revenue of about $55 millions a year might be raised. It would seem that they expected about $10 millions a year to come from increased fees for Educational and Health services, about $25 millions from local rates and other State Revenue, and the balance from Income Tax. The Mission also added that it might be necessary to raise even further taxes by increasing import duties and taxes on company profits. But increases in company tax will discourage the foreign investment which the Government desires, and increases in Import duties will be sure to arouse popular criticism, since the conventional luxuries and semi-luxuries such as imported liquor, beer, tobacco and perfumes are already highly taxed. As to Income Tax, even doubling the present rates of personal tax would raise no more than $20 millions or so. And such drastic measures would be both inequitable and unpopular, for it would amount to imposing a specially grave burden on some 30,000 people out of a total population of over 5,000,000. Incidentally, also, about a third of the taxpayers so hit would be Government employees or pensioners. Apart from any political implications, this would also have an adverse effect on the retention of those expatriate officers whose services are still required. And among the taxpayers there are only 3,000 with assessable incomes of $20,000 or over. In truth there are very few rich to "soak".

This paper is not the place for an extended study of taxation problems which are at present under examination in the Treasury. As a broad generalisation it is not difficult to see how $30 millions or so a year can be raised without serious repercussions and the International Bank Mission envisaged the raising of an extra $55 millions. But neither figure would be sufficient to cover half the programmes proposed by Ministers - unless Rubber remains consistently above 75 cts. a lb. Unpopular measures and perhaps entirely new forms of taxation may have to be faced if development is to proceed. On this admittedly rather rudimentary approach, it will now be assumed (pending completion of the Treasury study of taxation) that the Government will be ready and able if necessary to raise additional revenue of at least $75 millions a year by 1960. Whether this is the right figure or not only time and the evolution of political and economic developments in the country can show. The immediate point however is that Table III below shows that even if it could be done it would only serve to reduce the cumulative deficit over the period to about $227 millions. It would not balance the Budget so long as the Emergency continued.

TABLE III.

REVISED ESTIMATES OF THE ORDINARY BUDGET 1956-60.

(As in Table II but with provision for new Taxation)

$ Millions.

	Revenue			Expenditure		
	On present basis	New Taxation	Total	Emergency Element	Total	Surplus + Deficit -
1956	710	-	710	130	690	+ 20
1957	614	18	632	130	704	- 72
1958	584	37	621	118	706	- 85
1959	587	56	643	104	707	- 64
1960	603	75	678	92	704	- 26
TOTAL	3,098	186	3,284	574	3,511	- 227

The cumulative deficit of $227 millions shown in Table III above would absorb nearly two thirds of the country's present available surplus Balances ($365 millions).

131

THE OUTLOOK FOR THE CAPITAL BUDGET 1956-60

11. From the Ordinary Budget, discussion must now turn to the Capital Budget. On the Income or Resources side this consists of a statement of the funds likely to be available to the Government during the period for capital expenditure: that is from its own Revenue or Surplus Balances, from its C.D.& W. Allocation from the U.K. Government, and from various forms of borrowing at

home and overseas. On the Expenditure and Committments side must be shown these items to which the Government is already actually or prospectively committed. The results are summarised in Table IV. This is the result of a long and complicated study, the details of which, particularly on the Income side, would take too much space to be discussed here. Part Four of this paper has however been devoted entirely to this subject and Table IV is based on the conclusions drawn there. And the conclusions, shown in Table IV are that existing commitments in the form of capital expenditure already voted, either on Loan or Revenue account in the Printed Budget and Supplementary Budget for 1956, plus prospective commitments in respect of the Rubber Replanting Scheme and of the schemes for the compensation of expatriate officers and the commutation of their pensions already amount to no less than $837 millions, a figure which exceeds by about $94 millions all the present and prospective capital resources likely to be available to the Government - short of "raiding" the Currency reserves and deliberately spending all the Surplus Balances by 1960, neither of which are recommended for reasons which are discussed in Part Four.

The margin available for new capital expenditure in and after 1957, whether it be on schools, hospitals, the Armed Forces or anything else is therefore nil; in fact, on the assumptions made earlier, and without external aid, the Federal Government is already over-committed on capital account unless (which again is not recommended) it is prepared to plan deliberately on using up virtually all its available Surplus Balances in the next four years.(5)

FIRST CONCLUSION

12. The first conclusion of this Memorandum is therefore that:

(a) So long as the cost of the Emergency remains at or near its present level of $130 millions;

and (b) unless the price of natural rubber remains for long periods in and after 1957 above the price of synthetic;

and (c) notwithstanding, the willingness and capacity of the Government to raise additional revenue by new taxation to the extent of $75 millions a year by 1960 (which is assumed as a target figure but has yet to be established in practice);

then (d) the Federation Government is advised that it cannot from its own prospective resources and without external assistance confidently commit itself to further major programmes of development either on Capital or Recurrent account or for Civil or Defence needs beyond those already approved and voted in the 1956 Estimates and the subsequent Supplementary Budget (viz. the items shown in Table I plus the present Armed Forces Programme)

Note (5) In fact the deficit of $94 millions would absorb nearly all the Surplus Balances. It should also be noted that this statement does not include capital expenditure on the Education Plan beyond what has already been voted. This would absorb about half the investible element in the Currency Reserves if the latter were "raided". In other words, committing all the Surplus Balances and using the Currency Reserves would not produce more than $100-125 millions for new capital works. If no external aid can be obtained this may have to be considered, but it involves certain serious risks to currency and financial stability and will not solve the problem of financing the Capital Budget. This matter is discussed more fully in Part Four. Nor does the Table take into account the expenditure certain to be incurred under the Replanting Ordinance on Rubber Replanting after 1960.

TABLE IV

THE FINANCIAL OUTLOOK FOR THE CAPITAL BUDGET 1956-60 WITHOUT SPECIAL EXTERNAL ASSISTANCE

$ Millions

Prospective Income			
1. Unexpended Balances of 1949 & 1951 loans:			20
2. General Revenue & Surplus Balances:			
Aviable at 1.1.1956		365	
Deduct:			
(i) Estimated Revenue Deficits: 1956/60	227		
(ii) Recommended Reserve at 31.Dec.1960	120	347	18
3. Floating Debt Operations:			
At 1.June.1956		150	
Deducting Funding Operations but Adding New borrowing, say net a run-down of		25	125
4. Local Loans:			
Brunei 1956		40	
Post Office Savings Bank 1957-60		70	
Employees Provident Fund etc.etc.1956/60		350	460
5. Overseas Loans:			
London Market (say £10 millions)			85
6. C.D.&.W. Allocation:			35
7. TOTAL PROSPECTIVE RESOURCES			743
8. PROSPECTIVE DEFICIT ON CAPITAL ACCOUNT: (c)			94
TOTAL			837

Prospective Expenditure & Commitments		
1. Capital Expenditure already raised on loan Account but not yet spent:		
1949 & 1951 loans (not yet spent)		20
2. Capital Expenditure already approved on Loan Account but not yet raised:		
(i) 1953 & 1955 Loans Ordinances	221(a)	
(ii) Appx.VIII Pt.2: Charged to Advances in 1956 printed Estimates	144(a)	
(iii) Suppy.Budget July 1956: Charged to Advances	100	465
3. Capital Expenditure already approved on Revenue Account:		
(i) Civil capital works voted & charged to Revenue in 1956, but excluded from the Ordy.Budget in Tables II & III	100	
(ii) Rubber Replanting Ordinance 1957-60 (b)	137	237
4. Other Capital Commitments:		
(i) Expatriate Compensation (b)	75	
(ii) Commutation of Pensions (b)	20	
(iii) Expansion of Regular Armed Forces (for existing programme only, but excluding Fed.Mil.College)(b)	20	115
TOTAL		837

Notes. (a) These figures exceed those shown in Table I. This is because the figures given in Table I relate only to expenditure which will be incurred in and after 1956 whereas the figures in Table IV above relate to the loan monies which actually have to be raised in and after 1956. The latter figures exceed the former because some loan Expenditure to the extent of $76 millions has been incurred in 1955 before the corresponding Loans were actually raised.

(b) These figures are estimates.

(c) This deficit of $94 millions would in effect reduce the Surplus Balances at the end of 1960 from the recommended reserve level of $120 millions to $8 millions i.e. to less than one week's Federal expenditure.

138
94
44

PART TWO

EXTERNAL ASSISTANCE AND THE ORDINARY BUDGET

THE FORM OF ASSISTANCE

13. The previous Part showed that external assistance will be needed for both the Ordinary (i.e. Recurrent) and Capital Budgets if the Government is to proceed with any long term Development Plans which will be more than a series of annual hand-to-mouth operations. It was accepted at the London Conference however that the tempo of developmental expenditure in both social and economic fields should be increased in order to combat the "cold war" of communist infiltration; an increased rate of capital investment is also necessary to provide more land and employment for the rapidly growing population in both rural and urban areas. The question is therefore the amount of such assistance and the form in which it should be sought.

THE CASE FOR HELP IN MEETING THE COST OF THE EMERGENCY

14. The first task must be to put the Ordinary or Recurrent Budget into shape. Here the really acute trouble is the recurrent drain of the Emergency. It was recognised at the London Conference that there might be a case for external assistance from H.M.G. on this score. It is therefore suggested that the Federation Government should now approach H.M.G. for assistance in the form of a grant of at least half the cost of the Emergency from 1956 onwards. It would still remain necessary for the Government to finance part of the cost of the Emergency from its own Surplus Balances. It is suggested that this should be accepted and that one third, or say $125 millions, of the Reserves should be earmarked broadly for this purpose. It will still of course be necessary to raise additional taxation, and the figure of $75 millions previously adopted in Table III is once more assumed. These figures have been brought together in Table V below which shows that, on these assumptions, the Government could embark on a limited but sizeable expansion in recurrent expenditure by about $70 millions in stages over the next four years while still keeping the Budget roughly in balance apart from Emergency expenditure. These Revenue figures are based on the Treasury estimate of a rubber price of 65¢ in 1960. This is a reasonable assumption since it corresponds to the price of the synthetic product. But even if rubber never fell below 75¢ (which cannot be counted on - and it fell to 53$\frac{3}{8}$¢ in 1954) the direct additional revenue of about $25-$30 millions a year extra which this would yield would not be sufficient to meet all needs.

TABLE V

REVISED PLAN FOR THE ORDINARY BUDGET 1956-60

(As in Tables II & III but providing for aid from HMG,, for new Services to be financed from recurrent expenditure and for drawing on Surplus Balances).

$ Millions

	Revenue			Expenditure				Aid from HMG	Balance I Surplus + Deficit - To be drawn from surplus Balances	Balance II Assuming No Emergency & No HMG Aid after 1957
	On present basis	New Taxes	Total	On present basis	Emergency	New Services	Total			
1956	710	-	710	560	130	-	690	65	+ 85	+ 85
1957	614	18	632	574	130	25	729	65	- 32	- 32
1958	584	37	621	588	118	35	741	59	- 61	- 2
1959	587	56	643	603	104	50	757	52	- 62	- 10
1960	603	75	678	612	92	70	774	46	- 50	- 4
TOTAL	3,098	186	3,284	2,937	574	180	3,691	287	- 120	+ 37

THE PROBLEM OF MEETING RECURRENT EXPENDITURE

15. Table V indicates two important conclusions:

(i) that, given assistance from H.M.G. in respect of the Emergency, the extent to which the Government will be able to finance the annually recurrent cost of new services (both civil and military) will be governed largely by the extent to which it can raise new taxation;

(ii) that in the long run this proposition will still eventually come true even when the Emergency ceases for as the right hand column of Table V shows, even if there were no expenditure on the Emergency after 1957 the Ordinary Budget would still show no surplus on the assumptions previously made.

But there is also a third point of importance. This is that $70 millions a year by 1960 would not be sufficient to meet all ministerial needs which are likely to amount to about $150 millions a year by then. These needs, as derived from the ministerial review of Departmental Development Plans referred to at the beginning of this Memorandum, are summarised in Table VI below. More detailed figures, department by department will be found in the Development Plan Schedules at the back of this Memorandum (Appendix A).

TABLE VI

MINISTERIAL PLANS

ADDITIONAL RECURRENT EXPENDITURE REQUESTED BY 1960

Armed Forces (a)	$62	millions	a year
Education (White Paper)	$58	"	"
Health	$10	"	"
Other Civil Ministries	$14	"	"
Additional Loan Charges (b)	$10	"	"
TOTAL	$154	millions	a year

Notes to Table VI

(a) Based on raising expenditure to $107 millions a year compared with the planned level of $45 millions approved as part of the existing programme.

(b) At 5½% interest and 1% for Sinking Fund $15 millions a year would finance about $200 millions of new borrowing over and above the $580 millions or so to which the country is already committed. The interest and sinking fund charges for the latter figure have been included in the Treasury estimates of Expenditure used in Tables II, III and V.

SECOND CONCLUSION

16. It is therefore the second conclusion of this Paper that:

(a) Given assistance from H.M.G. to the extent of at least half the cost of the Emergency;

and (b) the willingness to earmark about one third, or say $120 millions, of the country's Surplus Balances towards meeting its cost as well;

then (c) unless the price of Rubber regularly exceeds 75¢ in and after 1957, which cannot be assumed, the ability of the Federation Government to meet additional recurrent costs for new services both for Civil and Military development will be limited roughly to what it can raise by new taxation;

(d) on the assumption that new taxation can be raised to the extent of $75 millions a year by 1960 the figure for the potential additional recurrent expenditure which can be incurred may be $70 millions a year by 1960 if the rubber price falls as low as 65¢ (which is about competitive level with synthetic) or $95 millions if it never falls below 75 cents (which is hardly to be counted on). Neither figure however is sufficient to meet all present known needs which are of the order of $160 millions a year;

(e) the two largest elements are: Education ($58 millions) and the Armed Forces ($62 millions): these two bids alone exceed the maximum likely to be available;

(f) the problem would be made easier if the increase in regular Armed Forces was matched by a corresponding reduction in the strength of the regular Police. It is recommended that this be considered and that Ministers should also be asked to review their other recurrent expenditure with a view to finding savings to assist in the financing of their development schemes;

(g) in any event, policy decisions are required as to:

(i) A Taxation Plan viz the target for additional taxation to be raised by 1960;

and (ii) A Recurrent Expenditure Plan viz provisional programme for the expansion of recurrent expenditure on Defence and Civil Development which can be financed within the limits imposed by the Taxation Plan and the Budgetary situation. These programmes would then be implemented on an annual basis as part of the normal Budgetary process.

PART THREE

EXTERNAL ASSISTANCE FOR THE CAPITAL BUDGET

17. Assistance will also be needed with the Capital Budget. Unless such assistance takes the form of interest-free loans or outright grants, this raises the financial question of how much can the country *afford* to borrow? Even if the aid is received as a grant or interest-free loan, there is still the question of capacity, i.e. how much can the Government actually *spend*?

HOW MUCH CAN THE GOVERNMENT AFFORD TO BORROW?

THE SIZE OF THE NATIONAL DEBT

18. Dealing with the financial question first, attention has been drawn earlier in this Paper to the fact that the Government is already committed to $465 millions of capital expenditure on loan account the money for which has not yet been raised, (*) and that about $95 millions is likely to be necessary for the expatriate compensation schemes (which presumably will be financed from loans). These commitments will by themselves double the long-term debt of the country raising it from its present level of ($609) millions to nearly ($1,200) millions by 1960. At that level the Treasury estimate that gross service charges on the debt will be nearly $80 millions a year or well over 10% of Federal Revenue. However some of the money will have been relent to Statutory Bodies (e.g. the Municipalities, C.E.B., etc) who will be repaying capital and interest to the Government so that the net burden on the taxpayer will be less, perhaps about $60 millions or say 9% of prospective Revenue.

THE IMPLICATIONS OF BORROWING

19. The estimates of expenditure prepared by the Treasury and used in Tables II, III and V of this Paper have included provision for these additional debt charges, but the annual charges on anything further which is borrowed will have to be met from new revenue. This is not an insignificant matter for at present rates of interest, service charges are at least $6½ millions a year for every $100 millions borrowed. The critical issue is really the purpose to which the borrowed money is put. If it is used for starting new industries, for developing new land or raising the productivity of the country, then assuming the schemes are well chosen and prove successful fairly quickly, it is reasonable to assume that the consequential increase in national income will itself generate the necessary revenue to pay the debt charges. If however the money is used for non-productive purposes e.g. schools, hospitals and military installations (however necessary these may be), then the additional debt charges will have to be met from higher taxation.

HOW LARGE A DEBT CAN THE COUNTRY AFFORD?

20. In this connection it is important to emphasize that it is not the *total size* of the National Debt which matters, but the burden which the annual service charges on it impose upon the Revenue and on the Balance of Payments. The latter consideration will only become important when a Central Bank is established and the Malayan currency becomes independent of sterling; under the present currency arrangements a balance of payments problem can not arise. As to the Revenue burden, all that can be said is that a National Debt which

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(*) See Table IV item 2 on the right hand side.

costs more than 10 per cent of Revenue is getting rather large (unless there
apa- are considerable reserves of taxable still untouched which can be tapped
ty if necessary). And this is particularly the case when, as in Malaya, the
country's Revenues are liable to fluctuate widely with the prices of one
or two export commodities.

NATIONAL DEBT: SOME INTERNATIONAL COMPARISONS

21. Confirmation of this generalisation can be obtained from comparison with other countries. Table VII below summarises the comparable position in 42 countries for which such statistics are published by the United Nations. In only 11 (viz. Canada, Costa Rica, Mexico, Panama, Argentine, Columbia, India, Turkey, Spain, Switzerland and the United Kingdom) do the annual charges on account of public debt exceed 10% of Revenue. It is no coincidence that nearly half of these are Latin American States which have a notoriously bad record for over borrowing and defaulting on their debts. It is also significant that at the date of this United Nations return the Federation of Malaya had one of the lowest debt charges in the world - 3½% of Revenue. Today that figure has already risen to 5% and commitments already approved will inevitably raise it to nearly 10% within four years - and any additional borrowing will raise it higher still.

CONCLUSIONS WITH REGARD TO THE NATIONAL DEBT

22. It is therefore suggested that considerable caution should be exercised in the matter of further expansion of the National Debt; and that particular attention be paid to the necessity of using Loan funds for productive economic projects which will raise productivity and the National Income and so generate the revenue necessary to pay the interest and service charges. As a rough and ready rule it is also suggested that not additional debt charges to be incurred by the Federal Treasury (over and above existing commitments) should be limited to $70-$75 millions, i.e. another $10, or at the very most $15 millions a year, by 1960. The amount that can be borrowed within these limits will depend on the rate of interest and sinking fund charges; at the current rate of 6½% for both this would permit between $150 and $230 millions of new borrowing.

THE QUESTION OF PHYSICAL CAPACITY

HOW BIG A CAPITAL PROGRAMME CAN THE GOVERNMENT CARRY OUT?

23. The next question is: assuming the Government can find the money how much can it actually spend? It is not easy to generalise about this: there are some schemes (e.g. rubber replanting) which make little or no call on the Government's capacity to undertake new work while others (e.g. some Railway, Electricity and Telephone schemes) may include large elements of overseas expenditure for plant and equipment and rely only to a limited extent on the availability of local staff in Malaya for their implementations. Other schemes (e.g. loans to Municipalities and the Housing Trust) may make no call on the Government's own works capacity, but will depend for their implementation on the works capacity of other bodies or even of private enterprise. Nonetheless, when it comes to actual work on the ground - whether it be building power stations, roads, camps, offices, houses, schools, or Railway lines or the opening up of new land or the provision of new services (e.g. in rural health centres) and whether it be done by the Government or some other body - the tempo of any development plan is definitely limited not merely by the money available, but also by the staff available at the various levels to plan, order, direct, supervise and administer. Malaya itself has had plenty of experience of this truth in the last five years. To take one example; the Education Development Fund which had approved over $12 millions of capital expenditure, actually spent only $3.3 millions by September 1955 and there were still 28 projects which had been approved in 1953 or 1954

TABLE VII

REVENUE, EXPENDITURE AND PUBLIC DEBT CHARGES

Country	Currency	Total Revenue	Total Expenditure	Public Debt. Charges	Public Debt. Charges as Percentage of Revenue
Colombia	Pesos million	939.2	1,269.4	255.0	27.2
Spain	Pesetas million	26,074.2	31,636.6	4,712.2	18.1
Mexico	Pesos million	5,085.0	5,681.0	799.5	15.7
India (Central Government only)	Rupees million	6,015.5	10,333.2	834.2	13.9
United Kingdom	£ million	4,929.0	4,997.0	674.0	13.7
Costa Rica	Colones million	230.0	230.0	31.5	13.7
Switzerland	Francs million	1,899.3	1,872.6	256.5	13.5
Argentina	Pesos million	13,383.9	13,828.5	1,625.3	12.1
Canada	$ million	3,982.6	4,130.9	478.2	12.0
Panama	Balboas million	43.9	46.1	5.2	11.8
Turkey	£ Turkey million	2,268.5	2,287.6	243.4	10.6
United States (Federal & State Governments 1954)	$ million	14,050.3	14,809.4	1,298.9	9.2
New Zealand	£ N.Z.million	254.3	200.1	20.0	7.9
Netherlands	Guilders million	6,264.0	7,191.0	481.0	7.7
Israel	£ Israeli million	326.5	511.8	25.3	7.7
Ireland Republic	£ million	108.1	135.9	8.2	7.6
El Salvador	Colones million	155.5	162.7	10.7	6.9
Denmark	Kroner million	4,486.2	5,566.9	294.9	6.6
Italy	Lire thousand million	2,207.0	2,489.4	144.0	6.5
France	Francs thousand million	3,180.0	3,414.0	199.0	6.3
Thailand	Baht million	4 180.1	5,411.5	253.9	6.1
Portugal	Escudos million	5,602.0	7,137.7	337.1	6.0
Haiti	Gourdess million	129.2	129.2	7.3	5.7
Union of South Africa	£ S.A. million	272.8	322.2	14.6	5.4
Norway	Kroner million	4 188.2	4,212.1	222.7	5.3
Pakistan (Central Government only)	Rupees million	1,390.3	2,122.5	66.8	4.9
Sweden	Kroner million	9,034.0	10,141.0	390.0	4.3
Australia (Commonwealth Govt. only)	£ A million	957.0	832.0	37.0	3.9
Guatemala	Quetzales million	70.1	70.1	2.7	3.9
Federation of Malaya	M.$ million	629.6	943.2	21.9	3.5
Ceylon	Rupees million	1,034.7	994.7	33.6	3.2
Finland	Markkaa thousand million	181.9	184.3	5.7	3.1
Japan	Yen thousand million	959.6	1,129.4	22.9	2.4
Egypt	£E million	190.7	195.1	4.4	2.3
Brazil	Cruzeiros million	53,482.1	56,695.2	1,197.9	2.2
Germany, Western	Deutsche mark million	23,505.0	23,089.0	436.0	1.9
Honduras	Lempiras million	44.1	47.9	0.6	1.4
Austria	Schillings million	20,342.3	22,736.6	240.5	1.2
Burma	Kyats million	1,006.9	1,182.0	10.8	1.1
Iran	Rials million	10,848.0	17,943.0	75.0	0.7
Chile	Pesos million	91,641.1	89,193.9	419.6	0.5
Venezuela	Bolivares million	2,540.0	2,550.0	0.5	0.02

on which a start had not been made.

COMPARISON WITH PREVIOUS PERFORMANCE 1951 - 55

24. The first guide is obviously what the country has been able to do in the past. In fact its previous performance has varied considerably from year to year. Table VIII shows that the highest figures for capital expenditure by the Government and statutory bodies in recent years to have been between $160 and $170 millions in 1952 and 1953; since then it fell to $152 millions in 1954 further still in 1955. Total capital expenditure over the past 5 years 1951-55 has been about $730 millions of which $594 millions have been spent on civil development and $95 millions on Defence and the Emergency. Future capacity is more difficult to assess. Obviously a certain number of expatriate officers (including many connected with constructional and technical work of a developmental character) will leave the public service in the next four years; the question is whether it will be possible to replace them. To some extent constructional work may be put out to private architects and contractors. Where this cannot be done, the fact must be faced that any substantial exodus of expatriate officers before experienced replacements are available, must reduce the Government's capacity to carry out its Development Plan and possibly its Defence Plan as well.

THE CAPACITY OF THE PUBLIC WORKS DEPARTMENT

25. In this respect the key Department is the P.W.D. Here, the programme proposed by civil Departments would involve the P.W.D. in works totalling about $589 millions - excluding Defence needs. Against this the works capacity of the Department can be fairly closely estimated at $360 millions for the period or say just over $70 millions a year. This is with its present staff. Details are shown in Table IX below. No accurate estimate is yet available of the revised programme of Defence works but the provisional programme proposed looks as though it might total $90 millions. This would absorb a quarter of the P.W.D.'s capacity. It is therefore suggested that Defence bids on the P.W.D. might be taken at say $60 millions. This would mean that civil and development requirements would have to be limited to about $300 millions, or say $60 millions for Roads, (compared with bids of $130 millions), $60 millions for Water Supplies (compared with the $120 millions asked for) and about $180 millions for Buildings and Miscellaneous Works, such as schools, hospitals, offices, houses, etc., (compared with Departmental requests exceeding $300 millions). To a limited extent the gap may be covered by putting work out to private architects and contractors. Even here however the field is limited for Civilian demands are also rising fast. The number of experienced contractors and skilled workers is limited. Building control is theoretically possible but politically unpopular and administratively troublesome. Civilian building construction, other than that undertaken by the Government and excluding Labour Lines is at present running at about $30-$35 millions a year and is rising steadily. It recommended therefore that the Government should plan on not more than about $50 millions being completed by private contract during the next 4 years. The principal schemes affected by this will be those relating to Education, Health and Defence. To attempt anything more will merely force up prices - as was found in a different context in 1952.

TABLE VIII.

ACTUAL CAPITAL EXPENDITURE BY THE GOVERNMENT AND STATUTORY BODIES: 1950 - 55.

$ Millions

	1950	1951	1952	1953	1954	1955 (Revised Estimates)	Total 1951-55
Economic Services.							
Drainage and Irrigation	5	5	7	9	9	8	38
Agriculture	1	1	3	2	3	2	11
Roads and Civil Aviation	4	9	12	6	14	13	54
R. I. D. A.	-	-	-	4	2	1	7
Social Services.							
Education	1	3	4	5	5	5	22
Health and Other	1	1	3	4	6	3	17
Other Government Services.							
Police	6	6	20	7	2	6	41
Local Government	1	2	2	2	5	6	17
Housing (Government)	4	3	21	27	21	15	87
Administration and Miscellaneous	4	8	6	4	4	6	28
Commercial.							
Posts and Telecoms	6	9	10	14	11	8	52
Electricity	8	18	21	21	20	26	106
Railway and Harbours	16	17	23	13	11	4	68
Water Supplies	3	4	4	9	15	14	46
Sub-Total: Civil Development	60	86	136	127	128	117	594
Resettlement (including Perimeter lighting)	3	31	20	25	15	4	95
Emergency (P. W. D. N. R.)	-	1	4	4	6	3	18
Defence (P. W. D. N. R.)	1	2	6	5	4	6	23
Sub-Total: Defence and Emergency	4	34	30	34	25	13	136
Total	64	120	166	161	153	130	730

Notes. 1. Figure prior to 1953 taken from I.B.M. Report.

2. 1955 figures are incomplete.

TABLE IX

PWD: TOTAL WORKS CAPACITY 1956/60

$ Millions over the period 1956-60	I Capacity based on present staff	II Full Civil Departmental Programmes asked for	III Excess of Bids over capacity
Roads	60	130(a)	70
Water	60	120	60
Sewerage	nil	26	26
Buildings & Miscellaneous	240	313	73
TOTAL	360	589	229

Notes to Table IX

(a) Includes both Federal and State bids. Since this Table was prepared the estimate of road capacity has been revised upwards to $80 millions if sufficient machinery is available and the work is spread round the country.

THE CAPACITY OF OTHER DEPARTMENTS

26. In other Departments there seems no reason why Drainage and Irrigation and Telecommunications should not both maintain rates of about $10 millions a year, if they keep most of their present staff, while the Electricity programme should be well within the capacities of the two authorities concerned. On the basis of past performance, it is not certain whether Railways and Ports could carry out their proposed programmes in full, although they should not fall far short. Expenditure on rubber replanting is an uncertain factor, but is a statutory commitment. The actual Capital expenditure capacity of the Government in respect of the new policies envisaged for R.I.D.A., Industrial Development and the Land Development Authority is impossible to predict, but it is thought unlikely that more than $15 millions of new money will actually be spent before the end of 1960 in these fields over and above what has already been provided. It is also thought very unlikely that the Housing Trust and associated bodies will in fact be able to spend by 1960 the $60 millions or so which are sought. In Education, Health and other forms of direct Government expenditure on building (e.g. houses, offices, courts and labour lines) the programmes put forward greatly exceed in the aggregate both P.W.D. capacity and in the writer's view - what can be properly carried out even by private contract in the period.

CONCLUSION AS TO CAPITAL WORKS CAPACITY

27. In this controversial subject there is room for differences of opinion. If there is any general exodus of expatriate staff before qualified replacements can be found, then the country may not be able to maintain even its present rate of capital expenditure, viz. $130 millions a year, or $650 millions over the period 1956-60. Even if (as is hoped) technical and professional

establishments concerned with development can be kept well filled, then it is suggested that an optimistic but not unrealistic ceiling estimate might be based on the peak figures previously achieved in any one year, viz. $170 millions a year in 1952, plus perhaps, at the most, another 10 per cent. This would amount to $187 millions a year or $935 millions for the five years, excluding Replanting. It is the opinion of the present writer that it would be prudent to recognise from the outset that certain items in such a programme would almost certainly take 6 years and one or two might take 7 years to complete on the ground.

28. At this point the Government's decision must take political consideration into account. Bold and ambitious plans stimulate the nation's morale and energies, as well as its imagination, but they must not be ambitious that their presentation invites criticism or their subsequent failure disrepute. For planning purposes it is thought that an optimistic view of works capacity is justifiable on the ground of political and economic necessity, but it will be necessary to recognise that some elements will take 6 to 7 years to complete. Such an approach would, it is suggested justify setting the ceiling target for the Capital Works programme of Federal Government and Statutory Bodies for the planning period 1956/60 at about $935 millions. Adding $160 millions for Rubber Replanting this would mean a total Capital Programme of $1,100 millions. This would have to cover both Civil and Defence needs (except of course for anything which might be received in kind, that is in the form of arms, stores, equipment or actual existing military installations). To this programme must be added about $95 millions for the Compensation Schemes, etc., and $76 millions (cf. Table IV note (a)) for works carried out in 1955, but for which the loans themselves have not yet been raised, making $1,271 millions in all.

TOTAL REQUIREMENTS OF CAPITAL MONEY 1956/60

29. This is a very formidable figure and it must be remembered that $171 millions of it are accounted for by various purely financial needs; the actual Capital and development expenditure programme on the ground so to speak would be $1,100 millions. Of this $666 millions are already committed and about $500 millions have actually been voted. This can be seen more easily in Tabular form. Reference is therefore invited to Table X.

THE NEED FOR EXTERNAL ASSISTANCE

30. Compared with this, the total prospective capital resources likely to be available for the Government without special external assistance are estimated in Table X at $845 millions. This figure is higher than the previous estimate of $743 millions made in Table IV because since then it has been proposed in this Memorandum that help should be sought from H.M.G. in respect of the cost of the Emergency and this would reduce the drain on the Government's surplus balances and enable $120 millions of these to be used for the capital works programme, whereas Table IV only counted on a nominal $18 millions from this source. But compared with a financial programme of $1,271 millions there is still a deficiency of no less than $426 millions which will have to be found from external Sources.

THE IMPACT ON THE NATIONAL DEBT

31. New Borrowing of the order of $425 millions in addition to the $588 millions already committed would be likely to exceed the limits proposed in paragraph 22. It would raise the National Debt over $1,600 millions, that is to over 2 years' total Revenue. At $6\frac{1}{2}$%, the additional service charges would amount to $25 millions a year, and the total to about $100 millions a year or nearly 15% of Revenue. This would raise Debt charges in Malaya to a very high level - unless there is a quite unforeseen rise in Revenue and National Income. There is absolutely no prospect of additional revenue of this order being raised by 1960 over and above the $75 millions a year previously mentioned. Even the net debt charges after crediting repayments by statutory bodies would be $80-$90 millions - or say about 12% of Revenue. An effort

TABLE X.

REVISED PLAN FOR THE CAPITAL BUDGET: 195

Revised to provide for effects of higher taxation and assistance from HMG. in
amount of external assistance required on capital account to carry out a t
civil and defence sectors, of £1,100 mil

Income & Resources				Expenditure & Commitments
1. **Unexpended balances of loans already raised**				1. Loan Expenditure already approved & raised b
1949 & 1951 loans (balance of)			20	1949 & 1951 loans (balance of)
2. **General Revenue & Surplus Balances**				2. Loan Expenditure approved in 1956 Budget but
At 1st Jan. 1956		365		(i) 1953 & 1955 Loan Ordinance
Deduct:				(ii) Advances pending raising of new Loans (A
Revenue Deficits Revised 1956/60	125			(iii) Advance pending raising of new Loans (Su
Proposed Reserve at 31.Dec.60	120	245	120	3. Other Capital Expenditure already committed
3. **Floating Debt Operations**				(i) PWNR., DIDNR., Rubber Replanting etc. sh side of 1956 Estimates but excluded fro used in Tables II & III & V
As set out in Table IV and Part IV			125	
4. **Local Loans**				(ii) Rubber Replanting Ord.Estimated commitme
P.O.S.B.		70		
E.P.F. & others		390	460	4. Financial Schemes
5. **Overseas Loans**				(i) Expatriate Compensation (estimated)
London Market (say £10 millions)			85	(ii) Pensions Commutation (estimated)
6. **C.D. & W. Allocation**			35	5. Armed Forces
				Present Programme
7. **SUB-TOTAL: RESOURCES AVAILABLE**			845	6. SUB-TOTAL: EXISTING COMMITMENTS
8. **EXTERNAL AID REQUIRED**			426	7. NEW PROGRAMMES (DEFENCE AND CIVIL DEVELOPME
TOTAL			1,271	TOTAL

TABLE X.

SED PLAN FOR THE CAPITAL BUDGET: 1956-60.

taxation and assistance from HMG. in respect of the Emergency and to show the
on capital account to carry out a total capital programme including both
l and defence sectors, of $1,100 millions.

$ Millions.

Expenditure & Commitments	1956-60 Actual Expenditure on Capital Works		1956-60 Finance Required	
enditure already approved & raised but not yet spent				
1951 Loans (balance of)		20		20
nditure approved in 1956 Budget but not yet raised.				
& 1955 Loan Ordinance	150		221	
nces pending raising of new Loans (Appx.VIII Pt.2)	139		144	
nce pending raising of new Loans (Suppy.Budget, July 1956)	100	389	100	465
pital Expenditure already committed on Revenue Account				
., DIDNR., Rubber Replanting etc. shown in Revenue e of 1956 Estimates but excluded from forecasts d in Tables II & III & V	100		100	
er Replanting Ord.Estimated commitments 1957-60	137	237	137	237
l Schemes				
triate Compensation (estimated)			75	
ions Commutation (estimated)			20	95
rces				
Programme		20		20
.: EXISTING COMMITMENTS		~~616~~ 666		837
RAMMES (DEFENCE AND CIVIL DEVELOPMENT) 1957-60		434		434
TOTAL		1,100		1,271

must therefore be made to secure such Loans on a Government-to-Government basis at reduced rates of interest, say 3% over 40 years, and for some part, e.g. any finance for Defence, to be obtained as an interest-free loan or an outright grant. If this cannot be done then the programme should be reduced and less money borrowed.

DEFENCE AND DEVELOPMENT

32. The $1,100 millions works programme proposed above is the maximum which it is considered the country can plan to carry out during the 5 year 1956-60, even on the understanding that some projects will probably take 7 years to complete anyway. This is from the capacity point of view alone. A decision is therefore required as to the proportions to be devoted to the Armed Forces and Development respectively. The more there is for the one the less there will be for the other. The Defence programme just proposed by the Armed Forces Council envisages capital expenditure of $142 millions in Phase I (which is understood to mean right away) and another $30 millions in Phase II (which is understood to mean by about 1960/61). But much of this would take the form of arms, vessels, equipment and stores and some of these might be received as a free gift or loan. The call on the P.W.D. would (as already mentioned) seem to be about $90 millions. For the purposes of submitting a provisional Development Plan for discussion by Ministers it is now assumed tentatively that the proposed Capital Programme of $1,100 millions can be divided as to $1,00 millions for Development and $100 millions for the Armed Forces and other unforeseen commitments (including, for example, the cost of the move of the State capital to Klang). And the P.W.D. Plan of $360 millions has been divided tentatively as to $300 millions for Development and $60 millions for Defence - with an "overflow" of $50 millions of work to be put to outside architects and contractors. A Provisional Plan of Development for the Federation 1956-60 has therefore been drawn up on this basis for consideration and will be found at the end of the Memorandum. If it is desired to increase the Armed Forces Plan however then the Development Plan must be reduced correspondingly. This applies equally to Capital and Recurrent Expenditure and to works capacity. There is no spare capacity to play with. This point however does not apply to any arms, stores, equipment of installations which the U.K. Government may hand over the Federation and which involve no strain on the country's works capacity. On the financial side of the exercise, the need to keep the cost of the National Debt within manageable bounds - which, it must be emphasised, is a rapidly-growing problem - will be eased considerably if external capital help for the expansion of the Armed Forces can be secured as an outright grant or as an interest-free loan, either in cash or kind.

THIRD CONCLUSION

33. It is therefore the third conclusion of the paper that:

(i) The maximum Capital Works and Development Programme which the Government can and should plan on during the period 1956-60 is $1,100 millions for all purposes, Defence and Civil. (b) In practice some parts of a programme of this may not be completed until 1961 or 1962.

(ii) This will entail a total Financial Programme on capital account of no less than $1,271 millions.

(iii) To carry out programmes of this size will require special external financial assistance probably of the order of $425 millions.

Note (b) exclusive of gifts or loans in kind (e.g. arms, stores, equipment & existing installations)

(iv) This will riase the National Debt to about $1,600 millions. If such additional sums are borrowed at present commercial rates, these operations will raise the annual gross debt service charge falling on the Treasury to at least $100 millions a year compared with their present level of $38 millions and the net charge allowing for repayments by statutory bodies to about $80-$85 millions. This will exceed 12% of estimated Revenue which is high in itself by international standards. It would be more than the country could afford by 1960 in view of its other recurrent expenditure commitments.

(v) An effort should be made therefore to secure part of this assistance (e.g. that for Defence) as an outright gift or interest-free loan and the remainder should be sought on special terms say 3% per annum repayable over 40 years. Alternatively the programme should be reduced.

(vi) A decision is required as to the apportionment of the country's Capital Works & Development Programme between Defence and Civil needs. Tentatively about $1,000 millions is suggested for Development and $100 millions for Defence and unforeseen needs (b). If Defence is to be expanded beyond this figure then the civil development programmes should be reduced.

(vii) A "Provisional Plan of Development for the Federation 1956-60" has therefore been drawn up which is based on the $1,000 millions figure. The principles on which it has been drawn up are discussed in Part Five and the Plan itself will be found at the end of that Part.

(viii) The P.W.D. element in any civil Plan should be limited to about $300 millions and the draft Plan so provides.

Note (b) exclusive of gifts or loans in kind (e.g. arms, stores, equipment & existing installations)

PART FOUR

THE CAPITAL RESOURCES AVAILABLE FOR DEVELOPMENT

34. In Part Three certain conclusions and recommendations were put forward with regard to the size of the Capital Budget which the country could contemplate. The grounds on which these were based could not be discussed in detail in that Section of the paper owing to their complexity. They will therefore now be set out in this Part of the Memorandum.

THE SURPLUS BALANCES AS A SOURCE OF CAPITAL MONEY

35. At the beginning of 1956 the country had about $365 millions in "available" Surplus Balances. How much of these will be available to finance the Development Plan depends in the first place on the extent to which they are drawn upon to finance deficits in the Ordinary Budget. Conceivably all could be so consumed by 1960 unless taxation is raised and help obtained with the cost of the Emergency. The Plan proposed in Part One however is that the county should earmark about one third of these balances, or in round figures $125 millions, to help finance the cost of the Emergency during the period 1956-60. This would leave about $240 millions. How much of this can be used for capital expenditure? This poses the second question: what is the lowest figure to which these balances can prudently be allowed to fall, short of a catastrophe? The London Conference agreed that they should be kept at "the right level" having regard to the violence of fluctuations in Federal Revenue as a result of the volatile character of the Rubber Market. A conservative attitude might demand that they should be kept at a level equivalent to six months' Ordinary Revenue or say $350 millions which is roughly their present figure. On the other hand, in countries where a central banking mechanism is well established, Governments usually dispense altogether with reserves in this form and rely instead upon their ability to raise and manipulate a Floating Debt, that is Treasury Bills and other forms of short term borrowing raised mainly from Banks. This however postulates the existence of a Central Bank and the development of a Money Market neither of which yet exist in Malaya. Both will come in time, but it would be unwise to assume that they will develop within 4 years to a point where financial prudence and public opinion will accept as normal a situation in which the Government has spent all its cash reserves on current needs and relies on Floating Debt operations to meet its daily cash requirements and also any emergency. On the other hand the existence of a Central Bank if established by say 1958 should, by 1960, be a sufficient assurance of support in emergency to justify the Government running down these reserves to lower levels than would be considered prudent today. To translate these considerations into figures, it is suggested that given the establishment of a Central Bank by 1958, it would be reasonable to plan on the assumption that the available reserves might, if need arises, be gradually run down by 1960 to no more than 2 months revenue or say about $120 millions (7). This would leave about $120 millions of the present balances available for Capital works in the period 1956/60.

LOCAL LOANS

36. The next potential source of Capital Income is that of Long Term Loans. There are $20 millions left in the old 1949 and 1951 Loans but this is matched by corresponding commitments on the Expenditure side. Then there is the $40 millions raised from Brunei this year. For further money the principal source of local borrowing is now the accumulating surplus funds of the Employees Provident Fund. It is estimated that $350 millions might be raised from the local market, and mainly from this source, over the period 1956-60. Two warning notes

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Note (7): And dispensed with altogether by say 1965 if the local money market develops by then to the point where the Government's needs can all be safely met from the use of the Floating Debt.

must be sounded however. First: if the Government should change the present policy of the Employees Provident Fund and permit more wide-spread or easier withdrawals, this assumption may not be fulfilled. Second: if the Government is to borrow regularly in the local (or London) market it must keep its Ordinary Budget in sound shape.

INVESTMENTS BY THE CURRENCY COMMISSIONERS

37. Another potential local source of capital lies the large balances held by the Currency Commissioners and the P.O.S.B. in overseas investments. The former are Pan-Malayan in character, but some could be "repatriated", so to speak, by re-investment in Malayan Government Development Loans provided an adequate degree of liquidity and substantial overseas reserves were still maintained. The Caine-Watson Report on the establishment of a Central Bank recommended inter alia that some but "only very gradual" use should be made of this device where the currency reserves were concerned. Theoretically about $200 millions could legitimately be raised from this source, but it is important to note that as a major operation it could only be done once. But there are disadvantages in this proposal. Public opinion is already sensitive on currency matters and may need some careful handling if the establishment of a Central Bank and the introduction of a new currency system is to take place without loss of confidence or serious outflow of capital. An open move by the Government to use the Currency Commissioners as a source of loan money could well disturb public confidence and touch off a whispering campaign against the currency on the charge that the Government was "raiding the reserves". Unjustifiable though such criticism would be, its effect could be damaging to the country's credit and prejudice its ability to raise further Loans. For this reason it is considered that this potential source of capital money should not be tapped in the immediate future but should be retained for the present as an emergency reserve, and earmarked for use after 1960 or at such later time when the Central Bank and new currency arrangements are sufficiently established to permit this without risk of public alarm.

INVESTMENTS BY THE P.O.S.B.

38. Turning to the Post Office Savings Bank, this already holds about a third of its investments of $121 millions (i.e. about $40 millions) in the form of Malayan securities. Assuming however the establishment of a Central Bank which, in the event of a "run", could purchase or make loans against the P.O.S.B.'s long term Malayan investments (which would otherwise be very difficult to sell at short notice) it is suggested that policy might now properly aim at gradually switching all the investments of this Bank into local Malayan Government securities of varying maturity dates. On this basis it is suggested that an extra $70 millions of loan money for development might be found from this source by 1960.

OVERSEAS BORROWING

39. Lastly there is Overseas borrowing. No firm estimating is possible here but it seems reasonable to assume that if the British Government will give its support, the Federal Government may be able to raise up to about £10 millions in the London money market and/or from the Colonial Development Corporation. No provision is however suggested at this stage for borrowing from the International Bank for Reconstruction and Development. This is mainly because it is felt that the most suitable avenue for major investment by the International Bank for Reconstruction and Development in the next few years will be in Electric Power; in this field the most eligible venture would now appear to be the proposed Cameron Highlands hydroelectric scheme on which the bulk of the expenditure will be incurred after 1960 and which will be discussed separately later.

TREASURY BILLS AND FLOATING DEBT

40. Lastly there is the use of the Floating Debt. The Floating Debt of the Federal Government is at present approximately $150 millions of which two-thirds is held in the form of Treasury Deposit Receipts and one-third in Treasury Bills. These funds are being used partly to finance current development work pending the raising of loans. Theoretically the floating debt should be correspondingly reduced as these new loans are raised. It seems however that in practice it will be convenient and indeed necessary to continue this process by which part of the Capital Programme is always financed by the use of the Floating Debt as a sort of revolving fund in advance of the raising of long term loans.

THE ESTABLISHMENT OF A CENTRAL BANK AND THE USE OF THE FLOATING DEBT

41. The present Floating Debt however is held wholly by two special sources, the Rubber Replanting Fund and the Employees Provident Fund; the former must be expected to reduce its holdings as its expenditure on the Replanting scheme grows, while the latter normally only holds them temporarily pending investment in long term loans. Here again the establishment of a Central Bank will bring tangible advantages; for the existence of such an institution, ready at any time to discount Government Treasury Bills, should make these instruments attractive forms of investments for the commercial banks and, to a lesser extent, for other bodies such as insurance companies, provident funds and the P.O.S.B. At the present time Commercial Banks in the Federation have total assets exceeding $900 millions of which over $500 millions are carried in the form of deposits with other bankers in London and Singapore owing to the absence of a money market in the Federation. Now the Commercial Banks must keep themselves liquid and in the absence of suitable short term paper in Malaya they have no other avenue of liquid investment open to them. The Banks have however held Federation Treasury bills in the past and it is reasonable to assume they would be prepared to do so again - and on an even larger scale - if their liquidity was assured by the existence of a Central Bank. It is therefore considered reasonable to assume that they and other investors could be induced by 1960 to carry a regular portfolio of Treasury Bills amounting in the aggregate to not less than $125 millions exclusive of seasonal fluctuation over and above that figure. This would be less than 20% of the banks' present liquid assets; if the expansion in Bank assets which has taken place in the past five years continues for the next five this would represent an even smaller ratio.

Adding all these various items together it seems that the Federation Government may reasonably count on being able to raise about $845 millions of new capital money over the period 1956-60.

THE EXPENDITURE SIDE

42. Unfortunately however this is only one half of the picture; the Income side of the Capital Budget, so to speak. On the Expenditure side the Government is already committed to heavy capital outlays on various subjects which must now be discussed.

LOAN EXPENDITURE ALREADY APPROVED

43. First there are the various Loan Schedules. These are separate and distinct from the Ordinary Budget, but the money still has to be raised. The printed Estimates of the Federation (Appendices VI - IX pp. 281 - 292) showed that at the beginning of 1956 the country had to raise no less than $221 millions in or after 1956 in respect of Loan expenditure already approved by law. Then there was another $144 millions of authorised expenditure to be charged to advances pending the raising of new Loans. [Some of these sums (about $54 millions) had indeed been already spent and financed in effect from Treasury bills.] Since then $100 millions has been added and charged

to Advances pending the raising of Loans in the Supplementary Budget passed in July. These items of course are an integral part of the country's Development Plan. But they add up to no less than $465 millions and this is the sum which the Treasury is absolutely commited to raise by Loans as soon as circumstances permit. *Details are given in Table XI.

OTHER CAPITAL EXPENDITURE

44. In addition to this Loan Expenditure however, the Ordinary Budget as printed contained approximately $100 millions of Capital and Developmental expenditure which is really also part of the Development Plan. This consisted of Rubber Replanting, D.I.D.N.R., P.W.N.R. and other miscellaneous capital items scattered through the Estimates. It is intended in future to separate as far as possible these Capital items from the Ordinary Budget in order to get a true picture of the extent to which Ordinary Revenue is meeting Ordinary or Recurrent Expenditure. These capital items have therefore been abstracted from the estimates of the Ordinary Budget given in Tables I - III of Part One. Consequently they must be shown as commitments in the estimates of the Capital Budget made in this paper.

RUBBER REPLANTING

45. Provision must also be made therein for expenditure on Rubber Replanting during 1957-60, which is estimated at $137 millions, since this is a statutory obligation created by Ordinance.

CAPITAL COMMITMENTS IN RESPECT OF THE ARMED FORCES

46. Next there is the capital expenditure to which the Government is already committed in respect of the expansion of the Armed Forces. This is estimated at $20 millions from Federal funds in the period 1956-60.

This figure does not include any new expansion beyond the "Templer Plan" (which is being paid for by the U.K. Government at a total estimated cost of $62½ millions), the new Federation Military College and miscellaneous works of an indispensable character associated therewith. The implications of the latest proposals made by the Armed Forces Council are discussed elsewhere in this Memorandum.

EXPATRIATE OFFICERS COMPENSATION SCHEME ETC.

47. Lastly there are the capital commitments which will emerge from Independence and Malayanisation of the Public Service. No accurate figure can be given for these but these are roughly and tentatively estimated at $75 millions for the Compensation Scheme and $20 millions for the special Pensions Commutation Scheme. This brings the total of Capital expenditure to which the Government is already committed to the formidable figure of $837 millions.

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* * In fact $40 millions have been raised from Brunei since the beginning of the year and about $80 millions may be raised at the end of 1956.

TABLE XI.

EXISTING CAPITAL COMMITMENTS ON LOAN ACCOUNT AT 1ST JANUARY, 1956.

(cf. Appendices VI - IX of Printed Estimates)

$ Millions.

	Authorised	Raised	To be Raised in and after 1956	Spent at end 1955	Total to be spent in and after 1956	Total
Loan Ordinance						
No. 16 of 1949	100	100	-	98	2	100
No. 49 of 1951	100	100	-	82	18	100
No. 56 of 1953	55	34	21	25	30	55
No. 12 of 1955	160	-	160	63	97	160
No. 27 of 1955	40	-	40	17	23	40
Sub-Total	455	234	221	285	170	455
Capital (Loan) Expenditure authorised pending raising of Loans						
1956 Budget Appx. VIII Pt. II	144	-	144	4	140	144
1956 Supplementary Budget	100	-	100	-	100	100
Total	699	234	465	289	410	699

CONCLUSION

48. Bringing both sides of the Capital Account together - as is done in Table XII below - it will be seen that existing commitments in respect of capital expenditure are almost exactly equal to the total existing and prospective capital resources likely to be available during the five year period 1956-60. This, be it noted, is without making any provision whatsoever for new capital expenditure on Education, Health, the Armed Forces or other civil needs in and after 1957 beyond what has been already voted and approved by law. It is to meet these that external assistance will be required. This question has already been discussed by anticipation in Part Three where the recommendation has been made that special external assistance of the order of $425 millions is likely to be required and should therefore be sought in London. What is also important to note is that it may not be possible to mobilise capital resources even on the scale envisaged in this Chapter unless a Central Bank is established by about 1958.

TABLE XII

FEDERATION OF MALAYA: OUTLOOK FOR THE CAPITAL BUDGET 1956-60

$ Millions.

Income and Resources				Expenditure and Commitments		
1. Unexpended Balance of the 1949 and 1951 loans			20	1. Loan Expenditure approved & raised 1949 & 1951 loans		20
2. General Revenue & Surplus				2. Loan Expenditures approved but not yet raised		
Balance available at 1. Jan.56.		365		(i) 1953 & 1955 Loan Ordinances	221	
Deduct:						
(i) Revenue Deficits 56/60	125			(ii) Loan expenditure charged to Advances in 1956 printed Estimates	144	
(ii) Reserve to be kept at 31.Dec.60	120	245	120	(iii) Loan Expenditure charged to Advances in 1956 Supplementary Budget	100	465
3. Floating Debt Operations				3. Capital Expenditure at present charged to Revenue		
At 1.June.56		150				
Deduct Funding Operations & add new borrowing		25	125	(i) Capital items (PWNR, DIDNR, Replanting etc.) in 1956 estimates, excluded from Tables II and III	100	
4. Local Loans				(ii) Rubber Replanting 1957-60	137	237
Brunei 1956		40		4. Other Capital Expenditure		
P.O.S.B. 1957-60		70		(i) Expatriate compensation	75	
EPF etc. etc. 1956-60		350	460	(ii) Pensions Commutation Scheme	20	
5. Overseas Loans				(iii) Armed Forces (existing Programme)	20	115
London Market etc. £10 millions			85	5. SUB-TOTAL: CAPITAL COMMITMENTS		837
6. CDW Allocations			35	6. Balance available for new Schemes 1957-60		8
TOTAL			845	TOTAL		845

PART FIVE

DEVELOPMENT POLICY AND PRIORITIES

49. In previous parts a Civil Development Programme for the period 1956-60 of $1,000 millions has been proposed. Once the question of the size of the programme has been decided the next major issues are those of the policies and priorities to be adopted in development matters. For a full discussion of these problems reference must be made to the International Bank Mission Report: in this Memorandum space will permit discussion only of the salient issues.

THE RISING POPULATION

50. Of these the rapid increase in population - one of the highest in the world - is the most outstanding. The Bank Mission envisaged that it might double within 25 years. For the Government the immediate impact of this will be in the field of education, but the more fundamental problems will arise in the field of employment. Here it seems the country may have a short breathing space in which to prepare to meet the impact of this problem. Although accurate figures are not available, rough estimates made in the Department of Statistics suggest that whereas the male working population between the ages of 15 and 55 may have increased by about 200,000, from perhaps 1,700,000 to 1,900,000, between 1947 and 1957, it will now rise only slowly until about 1961; after that date however it is likely to increase very rapidly indeed, probably at the rate of 100,000 a year or more. In other words the Government may have 5 years, but not more, in which to promote an expansion in the country's economy sufficient to absorb a rapidly rising labour force in the sixties. Given the complexity of the task, the period is none too long.

THE RURAL ECONOMY

51. But there are other aspects. Pressure of population on the land and in consequence excessive fragmentation of holdings is another problem of growing urgency. If the Federation is to continue to hold its leading place in Asia in the matter of standards of living and incomes, it must not merely provide expanding opportunities for productive jobs, but must do so in ways which will reduce the pressure of population on the land and yet raise the standard of living of the farming community nearer to those levels enjoyed in other sectors of the economy. For any widening of the existing gap will generate social and racial tensions. This touches immediately on another basic problem of the country; it can hardly be denied that the rural population need a larger share of the cake both in the economic and welfare fields than they have received hitherto.

THE SOCIAL SERVICES

52. At this point some consideration should be given to the role of the Social Services. As a broad but vital generalisation the pace at which these can be developed must depend on the rate of expansion in the economic sector. Only higher production and more trade can generate the incomes which must provide the taxation to pay for these services.

HEALTH

53. But in this matter there is one point of relationship between Health services and the economic life of the country. It is a commonplace that in many areas a substantial proportion of the rural population suffers endemically from enervating and debilitating diseases such as

malaria, hookworm and intestinal infections. It is also true that basic improvements in hygiene and diet, in the simplest terms, such as raising and eating more meat and fresh vegetables, the wearing of footwear, could radically improve the mental and physical stature of the rural population within a generation. Communities whose health is below par most of the time must obviously suffer in the capacity of its adult members for work and of its children for study. In the realm of *Social Services* therefore the expansion in rural areas of elementary hygiene, nutritional propaganda and simple medical services of an outpatient character is related to the economic objectives of raising the level of agricultural output. It is perhaps on that account the most urgent Social Service need at the present time, taking precedence even over schools and hospitals. Such services are however very costly. These must be planned on a simple pattern without any "frills".

EDUCATION

54. In Education the country's policy has already been settled: Political and social considerations dictate that a measure of priority should be given to rural areas hitherto somewhat neglected in these matters. And political issues: the development of the National language, consciousness and culture are likely to dominate discussion, controversy and action for many years to come. Yet this should not be allowed to obscure the fact that education should aim not merely only at producing a good Malayan citizen but also one who will fit into the country's economic life. The white collar jobs in Government and business, attractive and plentiful as they may seem today, will soon be filled. Emphasis in Education would therefore seem appropriate on the making of citizens trained, adapted and willing to enter the agricultural, industrial and technical life of the country rather than the "office jobs".

But the dominating aspect of Education is its enormous cost: $125 millions in capital and over $50 millions a year in recurrent expenditure by 1960; that was the estimate made by the last Committee. In fact the provisional Plan proposed does not provide sufficient to meet these estimates in full simply because to do so would involve excessive cuts in other sectors. Indeed if the annual recurrent expenditure on the Armed Forces is to be increased to a figure even of the order of $70 millions (and *a fortiori* if it is to be $97 millions) then on the assumptions made elsewhere in this paper, the Government will not be able at the same time to carry out the full Education programme envisaged by the Committee unless Rubber is going to stay up above the 75¢ mark. Finally, if what money is available is to reach the greatest number of pupils, constructional standards and costs must be pared to austerity levels; and on the recurrent side, the revenue from fees and education rates must be raised.

WATER SUPPLIES

55. Water supplies are another social service of a somewhat controversial character. Here too the demands greatly exceed the present constructional capacity of the country. It is suggested that priority should be given only to two classes of supply viz: first the extension of existing supplies in urban areas where the growth of population is outstripping the capacity of the existing system, thus inviting the risk of an epidemic, and secondly the building of new supplies in areas subject to severe shortage. However desirable, there will be neither the money nor capacity to provide new piped supplies to areas where reasonable supplies can normally be obtained from wells. Lastly a general reorganisation of the rather haphazard financial arrangements

for the control and administration of water supplies is a pressing need. In many areas water rates are far too low. But water itself is getting more expensive to provide. There is every reason, both on grounds of economy in the use of water, and of the acute need for finance, for insisting that rates be raised to realistic levels and that this service taken as a whole should be financially self supporting. State Water Boards, independant and self supporting financially should be the objective, with some joint consultative machinery for national planning and coordination.

LOCAL GOVERNMENT

56. The other major call for finance which falls mainly under the head of Social Services lies in the development plans of the Municipalities. From the Federal point of view these projects are self-supporting, for any funds so advanced are repaid both as to interest and capital. But that does not give them an automatic claim to all they ask for. Associated with this problem is that of Urban Housing. In all these fields there is little prospect of there being enough money to pay for, or enough capacity to build, all priority needs in the next five years. Both States and Municipalities must therefore be pressed to make substantial contribution - in land, from rates or from other revenues - to housing schemes and to their own development plans. As a broad generalisation it is reasonable to press local authorities generally to increase their revenues by extending their boundaries, revising their valuations and methods of assessment and raising their rates. The Federation Government cannot finance everything.

ECONOMIC PROBLEMS

57. Beyond remarking on the need for more jobs to employ a growing population, the discussion of the needs of the Economic Sector has been left until now. The axiom that only an increase in production and trade can supply the necessary revenues to feed the growing services demanded by the Welfare State has already been stated. It has been well illustrated in Part Two and Table VI where it is shown that prospective needs for additional recurrent expenditure by 1960 may be double the prospective revenue available to pay for them. It is necessary therefore to repeat what has been said by the International Bank Mission Report: that there are no industries existing or in prospect which can take the place of Rubber and Tin as the pillars of the Malayan economy and its principal sources of employment, revenue and foreign exchange. The fact must be faced that the next major industry, viz: Rice growing, is still unable to face competition from Siam and Burma without help - or at least the assurance of guaranteed prices, which is potentially the same thing: The rice industry helps to feed the country, of course, and that is important enough, but the padi planter (unlike the rubber small-holder) contributes comparatively little to Federal revenue and does not - under present conditions of tenure and cultivation - provide more than a meagre standard of living for himself and his family. The truth is that the peasant economy must be both "capitalised" and "modernised" if it is not to become a permanent drain on the public finances of the country. More capital must be made available to the small farmer; his outlook broadened and his methods improved; he must learn both to save and to borrow for the improvement and diversification of his holding. The latter must also be protected from fragmentation and, where possible, enlarged to permit more efficient working. Yields must be raised and off-season cropping extended wherever possible. In the meantime, and while this revolution - for it is nothing less - is taking place, the country look to Rubber and Tin to carry both its economy and its Budget as they have done in the past. It must also develop new industries.

FOURTH CONCLUSION

58. From all this it is suggested as the Fourth Conclusion of the Memorandum that the highest priority in the country's development plans should be accorded to:

(a) The rubber industry, both estates and smallholdings - so that by replanting and other measures it may be able to meet the challenge of the synthetic product;

(b) The peasant farmer, fisherman and forester - so that the output per family is raised by providing more land, by diversifying and intensifying production, by supplying better planting material, encouraging the use of fertilisers and off-season cropping, by improving cultivation techniques, extending cooperation, fisheries and the practice of poultry rearing and animal husbandry.

(c) The mining industries - by making land available and providing the surveys, maps, technical and research services and other aids necessary to the prospecting and development of new deposits.

(d) The determination of a sound policy of Land Utilisation.

And in urban areas we can add:

(e) The stimulation of industrial development.

Lastly to take a single project of outstanding importance, there is:

(f) The construction at North Klang Straits of an adequate port for the Federal capital which is so long overdue and has just been approved. It is suggested that all these requirements can be grouped as Priority One.

PRIORITY TWO

59. It is suggested that the Second Priority Group consists of the basic improvements needed in the Health and Education Services with emphasis firstly on the needs of the rural areas and secondly on the catching up with arrears of maintenance of *existing* installations, thirdly the really urgent water supply schemes.

PRIORITY THREE

60. In the Third Priority Group it is suggested that there should be included the modernisation and further development of the country's communication system - Road, Rail, Air, Telephone and Post Office. With the completion of the new Airport works at Kuala Lumpur and all the capital that has been spent in recent years on rail, road and telephone communications, their present needs although undoubtedly important are not, it is suggested so fundamental as those indicated in priorities One and Two. The costly extension of the Kuala Lumpur Airport could it is suggested, be deferred until the next five year plan. The extension of power supplies will probably also be in Category Three for the next few years in view of the heavy capital outlay in this direction recently. But from about 1959 onwards Power in particular and probably

Rail and Road Development may be stronger candidates for higher priority. For the next three years therefore the capital available to these projects will have to be related to what is available, and all these authorities will have to find as much as they can from their own current earnings - a policy already adopted by the C.E.B.

PRIORITY FOUR

61. In the Fourth Priority is placed the capital programme of the Government itself and the balance of the requirements of the Health, Education and other Social Services. The Government programme comprises offices, courts, police and customs stations, quarters and lines plus miscellaneous items such as the proposed and potentially very costly move of the Selangor State capital to Klang. Although these things may add to social capital they are rarely productive and not always essential. It is felt therefore that in a period when public finances are going to be strained to the uttermost to provide for the economic and social needs of the country these purely Governmental requirements should accept a modest fourth place and be pruned accordingly.

GOVERNMENT HOUSING

62. There are however some urgent questions of policy involving the housing of Government officers and labourers' lines. No less than 387 millions have been spent on Government housing since 1951 - see Table VIII. This is over 10% of all capital expenditure. It exceeds considerably what has been spent in the same period on Railways and Harbours or on Roads and Civil Aviation, or on Telecommunications and on Drainage & Irrigation and Agriculture or anything in fact except Electricity and the Emergency. It is suggested that the Government cannot possibly afford an outlay of this order any longer, and that it should take the earliest opportunity of disclaiming any responsibility for housing officers after Independence except in respect of the uniformed services and in those posts in outstations where private accommodation is not available. For the rest, the Government accommodation which is available should be provided at a reasonable but economic rent and priority given only to those officers who are really liable to transfer or who cannot reasonably be expected to purchase their own house. But no new officers' houses should be started beyond what have already been approved except for the special classes or posts already mentioned. Loans should be course be made available for officers to acquire their own houses. Officers already in the service would have of course a strong moral claim to adequate housing allowances in compensation for their lost rights. But newcomers to the service would not. All this is in line with present policy, but is admittedly rather more drastic. But the Government cannot continue to provide housing on the previous scale. It will cripple the rest of the Development Plan. And though costly in the short run, the new policy will be much more economical in the long run if it brings to a close the era of Government house building operations on a large scale.

Labourers quarters are in a somewhat different category in practice if not in principle. Here the Government is in the invidious position of housing many thousands of its daily rated labour force in lines which would invite prosecution in court if they were provided by a private employer. A P.W.D. survey estimated that it would cost 330 millions to remedy this situation but there is no prospect of being able to spare such a sum in the present five year period. Here again it is felt that priority must be given to the more remote outstations; and that in the urban and more developed areas where alternative accommodation is available the Governments long-term policy should be to withdraw from the housing business - as indeed nearly every other major Government in the world has done or is trying to do.

PRIORITIES EXPRESSED AS PERCENTAGE ALLOCATIONS BETWEEN SECTORS OF THE PLAN

63. Priorities cannot however be completely expressed in a simple and absolute order of merit; that would be nearly tantamount to saying that certain needs must be satisfied in full before the others got anything at all; that the Government could not build a single new office say until every school had been put up. There are of course some projects (e.g. Rubber Replanting and the North Klang Straits Scheme) which once embarked upon must be completed if the money is not to be wasted, but for the most part ministerial proposals can, albeit reluctantly, be cut down, phased or extended without serious hurt. And this is likely to be necessary all round.

Having indicated an order of priorities therefore it is perhaps the most practical way of approaching this problem to indicate the proportions in which the Government's resources which should be allocated to the different sectors of the Plan; that is to the Economic Sector (i.e. the augmentation of productive capacity, the raising of standards of production and output and the provision of economically productive employment): the Social Sector (i.e. the improvement of society's human capital, its education, health and general welfare) and the Government Sector (i.e. the direct needs of administration).

The International Bank Mission Report proposed by implication that the Government's capital resources should be divided in the ratio: Economic Sector 62%; Social Sector 25%; Government Miscellaneous and Unallocated 13%.

The pattern presented by aggregating Ministerial and departmental bids however would work out at: Economic Sector 51%; Social Sector 35%; Government and Miscellaneous 14%. It is suggested that this gives too much weight to the Social Services. In fact as Table XIII shows the highest comparable figure in any other Asian country is about 20%. If economic standards are to be raised, work provided and last but not least, more revenue generated to meet the growing recurrent expenditure on the national debt and the social services themselves then a greater proportion of the national effort must be devoted to the Economic Sector.

THE QUESTION OF STANDARDS

64. Lastly there is the question of "standards". No one can visit the many constructional works undertaken in this country over the past five years without receiving the impression that in some cases the standards of buildings and their finish are higher than those strictly necessary for a country which is going to have to "scrape the barrel" and impose heavy and unpopular taxation in order to get by during the next five years. This is not a criticism of the Public Works Department but rather a reflection of departmental and even higher pressures which have been brought to bear upon it. And some prominent buildings do involve a legitimate element of national prestige. But it would save money and possibly avoid potential inter-departmental friction if Executive Council were to request the Minister for Works and other Ministers concerned to ensure that all building and constructional works embarked upon by Government Departments hereafter is both designed and executed to the most stringent standards of simplicity and austerity compatible with functional and technical efficiency; that no departmental or higher requests for 'frills', modifications or relaxations in these standards be permitted - even though they can be financed by savings or other means within the votes approved for the work - without the specific prior approval of the Council.

TABLE XIII.

PERCENTAGE DISTRIBUTION, BY SECTOR, OF PLANNED PUBLIC EXPENDITURES IN SOME ECAFE COUNTRIES.

	Duration of the Plan	Agriculture & Irrigation	Transport & Communication	Power	Industry & mining	Social Services	Others
Burma	1952 - 60	10.8	42.4	23.0	8.2	15.5	-
Cambodia	1956 - 70	38.0	34.0	4.0	-	19.0	0.5 (a)
Ceylon	1954/55-1959/60	36.5	33.1 (b)	-	4.4	16.0	10.0 (c)
China (mainland)	1955 - 57	8.0	11.7	2.8	40.9	18.6	18.0
(Taiwan)	1955 - 56	47.3	8.7	10.4	27.5	-	-
India	1956/57-1960/61	21.0 (c)	29.0	9.0	19.0	20.0	2.0
Nepal	1956 - 60	22.0	30.0	14.0	8.0	4.0	22.0 (c)
Pakistan	1956 - 60	11.1 (d)	20.5	32.5 (e)	13.4	20.8	1.7
Philippines	1954 - 59	10.1	3.8	-	32.1 (f)	-	53.9 (g)

Notes. (a) Mostly expenditures on survey, statistics etc.

(b) Public utilities including power.

(c) Includes community development.

(d) Excludes expenditures on irrigation.

(e) Includes expenditures on irrigation.

(f) Manufacturing only.

(g) 48.9 per cent for construction, 5.0 per cent for others.

FIFTH CONCLUSION

65. Proceeding from the arguments set out above a "Provisional Plan of Development for the Federation 1956-60" has been drawn up and is attached as Appendix A. It is set out in a manner which shows how this Plan compares with those proposed by the International Bank Mission and by aggregating the bids of the various Ministries. It also shows how much has already been voted, that is in the 1956 printed Estimates, the July Supplementary Budget or various A.S.Vs. up to about the same date. To summarise therefore it is the fifth conclusion of this Memorandum that:

(a) the Federal Government should allocate its capital resources available for civil development as to 60% to the Economic Sector (that is to the augmentation of economic capital, the creation of productive economic work and the raising of output); as to 30% to the Social Sector (viz: the development of Health, Education, Housing and Social Services); and as to 10% to the Government Sector (viz: to its own domestic requirements in the form of offices, housing, courts etc.)

and (b) that the "Provisional Plan of Development for the Federation 1956-60" which has been prepared accordingly should be considered as a basis for more detailed planning.

PART SIX

LONGER TERM PLANNING 1958-60

66. The Provisional Plan of Development 1956-60 does not however include three major projects which if approved should be started before 1960 but cannot be completed until well into the following five year period. These projects also require further and more specialised study than has been possible in time for inclusion in this Memorandum. The first two will also require substantial additional staff.

These projects are:

(i) The Cameron Highlands Hydro Scheme;

(ii) The Trans-Perak Irrigation & Development Scheme;

(iii) The construction by the Railway of special Development lines on the East Coast.

Some details follow:

The Cameron Highlands Hydro Electric Scheme is likely to cost in all about $200 million and to develop 100 to 150 kw of capacity. Phase I, which the C.E.B. are considering with a view to starting work in 1958 would cost $120 millions (of which $50 - $60 millions would be spent overseas) for the installation of about 65,000 kw. It would take 5 years to complete.

The Trans-Perak Scheme would facilitate the development of 90,000 acres of new land with irrigation provided from a barrage across the Perak River above Parit. It would be constructed in two phases costing about $15 millions and $35 millions respectively for the water control works alone; the roads, utilities and other basic amenities have not yet been planned or costed but might double the bill. The first Phase would take at least 5 years before it could provide water for say the first 10,000 acre section, but the D.I.D programme provided for in the Plan B would leave no staff available for this scheme which would therefore require its own staffing arrangements. The whole scheme would take about 10 years to complete. About 20% of the cost of the first Phase and 10% of the second would be spent overseas on plant and equipment.

The Railway's proposals for a Development line on the East Coast would cost about $25 millions of which $10 millions would be spent overseas. The line selected would be about 150 miles in length and would run from Tembeling through the Sungei Tembeling and Sungei Trengganu valleys to Kuala Trengganu. The alternative considered was for a line from Bahau to Pekan; this would cost about $15 millions and would be about 100 miles long but seems to offer less potentialities for development although there may emerge some opportunity of taking substantial iron ore traffic from Rompin to Pekan if the long discussed EMMCO project really gets going.

RECOMMENDATION

67. Except for the Cameron Highlands scheme (on which the Central Electricity Board has now received sufficient technical data to consider its recommendations to the Government) only preliminary studies have so far been made of these schemes. It is considered that they should now all receive further study as a matter of urgency and preliminary soundings made as to the possibility of securing financial assistance for their execution (if approved) from the International Bank, the Colonial Development Corporation or other Agencies.

PART SEVEN

COMPARISON OF THE PRESENT PLAN 1956-60 AND THAT PROPOSED BY THE INTERNATIONAL BANK MISSION 1955-59.

68. The present plans now proposed exceed those recommended by the International Bank Mission. Some explanation of this is therefore called for. The major difference lies in the field of capital expenditure where the present Plan proposes a total of about $1,000 millions(8) for civil development compared with $775 millions recommended by the International Bank Mission. This increase of nearly 30% is partly accounted for by an increase in general cost of construction which has taken place since the International Bank Report was written, as a result of wage increases and a rise cost of certain materials. As a consequence the cost of some types of construction have risen by fully 20%. The plans of the P.W.D. & D.I.D. have been particularly affected by this. But in other directions the allocations proposed by the Mission are not adequate to meet all priority needs. Thus only $1 million was proposed for Industrial Development: this is clearly inadequate - unless, as the Mission apparently hoped, but which is not the case - private enterprise is willing audable to do all that is required. In fact private enterprise - in the form of the banking community - has argued that the Government ought to subscribe even more to the capital of the new Industrial Development Corporation than it has so far proposed to do ($2½ millions). Similarly for Land Development - a top priority - the Mission proposed a mere $2.6 millions compared with which the Federal Government has already appropriated $10 millions as being the minimum with which the new Land Development Authority can make any really substantial start on the ground. The Mission's allocations to Railway Development ($23.9 millions) for the whole five years would have done little more than finish off the programme of post-war rehabilitation and would have provided little, if anything, for new development or the improvement of services. In fact it has already been spent. As to Ports, the Mission's recommendations were based on a programme of improvements on the existing site at Port Swettenham and deferment of the construction of the new wharves at North Klang Straits. The Federal Government is quite satisfied that this would be false economy in a port where the demand for facilities is rising steadily and where congestion is endemic; and that in the long run it would involve the duplication of capital expenditure and the perpetuation of an unsatisfactory state of affairs in the present port area. Again, in Telecommunications the Bank's allocation of $17 millions would not be sufficient to cover two years capital expenditure at the Department's present rate which in turn is barely sufficient to keep up with the demand for new telephones etc. despite increased charges. And, it should be added, this demand is for commercial and industrial use and not to any significant extent for private users. Other major deficiencies in the Bank Mission's recommendations were in the field of Education (where the capital proposed would be less than half of what is required to provide schools at primary level for the estimated child population by 1960) Health, Housing and the Municipalities (for which the Bank Mission's proposed figure of $11 millions represents only about one-fourth of their programmed needs). In respect of Water Supplies and Sewerage the Mission's allocation ($39 millions) amounts to about half the country's actual constructional capacity and if this figure were accepted it would after allowing for Kuala Lumpur needs leave only $12 millions for works in rural areas and other towns compared with priority bids of nine times that figure. In fact this $12 millions will probably be spent before the end of 1957 and if the Bank's proposals were adhered to, all work on water supples outside Kuala Lumpur would then come to a halt. Similarly the proposed allocation of $35 millions for Government offices, housing, labour lines etc. is quite inadequate. The backlog on labour lines alone is about $30 millions and $36 millions are required to bring Police accommodation up to standard for the Force's permanent establishment of 15,000 men. Then there are outstanding needs for offices totalling something like $30 millions too.

Note (8) - Excluding Unallocated Reserve of about $30 - $50 millions.

69. It is also most important to note that the need for external assistance of the order of $425 millions does not derive solely from the fact that the revised Plan now presented exceeds that proposed by the International Bank Mission. For the Capital Programme on which this figure of $425 millions is based includes $95 millions for the expatriate officers' compensation and pensions' commutation scheme and at least $60 millions for the capital needs of the Armed Forces, neither of which figured in the programme of the Bank Mission at all. Nor is it due to the underestimating of resources: for whereas the International Bank Mission estimated the capital resources available over the five year 1955-59 at $670 millions, and assumed that, in addition, $105 millions would be found by withdrawals from surplus balances, the present plan is based on roughly comparable estimates of $725 millions and $120 millions respectively. Indeed where recurrent expenditure is concerned the International Bank Mission Report is liable to be misleading as a result of the Mission's decision to ignore emergency expenditure. By this device the Report is able to show the prospect of a series of revenue surpluses aggregating no less than $345 millions over five years and to propose that these should be used to finance capital development. In reality the prospect for the five years 1956-60 is that Emergency expenditure may well amount to $574 millions, even if it falls by 10% per annum after 1957, and lead to a series of Budgetary deficits unless external assistance is also forthcoming under this Head.

70. Admittedly no programme can hope to meet all needs in any given period of five years. And the present Plan does not pretend to do that. But it is a legitimate criticism of the Mission's Report that its proposals for capital expenditure seem to be dominated more by its assessment of the funds which are likely to be available within the present financial structure of the country than from any appreciation of what the country ought to try to find in order to maintain standards of living and a high level of employment during a period of growing population. A similar point has been argued in a recent symposium by members of the Economics Faculty of the University of Malaya and it may be appropriate here to quote their conclusion:

> "Economic development should, therefore, be given the highest priority because it is an essential pre-requisite for the development of social services and for improvement in living standards. To be effective the size of the development programme must be adequate. For Malaya, where the population is increasing by 3½ per cent per annum, an annual net investment of at least 12% is needed to ensure that the present standard of living does not fall. At present the total investment by the Government and by private business concerns is probably about 8%. Government investment alone probably accounts for about 3% of the national income. To raise total investment to something like 12% of the national income, Government investment will at least have to be doubled. This will leave the remaining amount of investment to be taken care of by the private sector".(10)

Although, as mentioned earlier in this Memorandum, the period of most rapid expansion of the actual adult working population in the Federation may not be upon us until the sixties, the seeds of economic expansion must be sown before then. In this context a Development Plan which in round figures aims at raising the rate of civil capital expenditure on development during the period 1956-60 by 30% over that attained in the previous period 1951-55, cannot be accounted unduly ambitious even though in some sectors it may not be fully realised. In the present inadequate state of our Statistical knowledge, the detailed percentage figures used in the extract quoted above in relation to National Income may be the subject of argument, but read in conjunction with the preceding paragraphs of this Part it is suggested that they do establish the presumption that some appreciable increase in the rate of public capital expenditure over that proposed by the Bank is most desirable and should be attempted.

Note (10) - The Problems of the Malayan Economy
Editor - Lim Tay Boh

APPENDIX A

FEDERATION OF MALAYA

PROGRAMME OF CAPITAL AND DEVELOPMENT EXPENDITURE 1956-60.

1. This Appendix shows the proposed Programme of Capital and Development Expenditure for the period 1956-60 and compares it with

   (i) The recommendations of the International Bank Mission for the period 1955-59;

   (ii) The bids put forward by Ministries;

   (iii) The sums already voted in 1956 in the printed Estimates, the July Supplementary Capital Budget and by ASV's.

2. The figures in red represent the proposed total capital allocations to Ministries for the period (including anything already voted). It is intended that in preparing their detailed plans Ministers should have discretion to propose minor switches between their departments.

3. The figures shown under the head "Proposed Plan 1956-60" in the column entitled "A.R.E." represent the proposed additional annually recurrent expenditure to be incurred on development or new public services during the period. This column has been revised since the original preparation of this memorandum in the light of the subsequent decision of Executive Council to raise the necessary taxation to support an increase of $90 millions a year in recurrent expenditure by 1960.

FEDERATION OF MALAY

MINISTRIES & DEPARTMENTS	I. B. R. D. PLAN 1955/59			DEPARTMENTAL BIDS 1956/60				
	$	%	A.R.+	$	%	A.R.+	P.W.D.	RE
I. ECONOMIC DEVELOPMENT								
A. LAND INDUSTRY & NATURAL RESOURCES								
1. MINISTRY OF AGRICULTURE								
(i) Agriculture	2.9		2.3	4.3		1.4	2.2	
(ii) Veterinary	1.5		0.3	2.0		0.3	0.7	
(iii) Forestry	5.6		0.7	5.4		1.6	1.7	
(iv) Fisheries	2.4		0.4	5.5		0.4	2.2	
(v) Co-operative Development	0.5		0.2	0.5		0.9	0.6	
(vi) Drainage and Irrigation	55.0	7.1	3.0	66.4	4.8	0.2	-	
SUB-TOTAL	67.9	8.8	6.9	84.1	6.1	4.8	7.4	
2. MINISTRY OF COMMERCE & INDUSTRY								
(i) Rubber Replanting	125.0	16.1	-	160.0	11.6	-	-	
(ii) RIDA	15.0	1.9	-1.0	3.4		1.0	-	
(iii) Industry	1.0		0.5	10.0	0.7	-	-	
SUB-TOTAL	141.0	18.1	-0.5	173.4	12.6	-	-	
3. MINISTRY OF NATURAL RESOURCES								
(i) Land Development								
Land Development Authority	2.6			10.0	0.7	-	-	
State/Settlement proposals	-			18.8	1.4	-	-	
(ii) Land Surveys								
Survey Department	1.0		0.3	0.6		1.3	0.6	
Land Use Survey	3.3			3.3		0.3	-	
Topographical Survey	-			5.1		-	-	
(iii) Mineral Resources & Surveys								
Mines Department	0.8			1.6		0.5	0.2	
Geological Survey Department	1.0		0.9	1.5		0.8	1.3	
Aeromagnetic Survey	1.4			0.6		-	-	
SUB-TOTAL	10.1	1.3	1.2	41.5	3.0	2.9	2.1	
TOTAL: LAND INDUSTRY & NATURAL RESOURCES	219.0		7.6	299.0	21.7	8.7	9.5	

FEDERATION OF MALAYA: PROGRAMME OF DEVELOPMENT EXPENDITURE 1956/60.

(in $ millions)

R.D. PLAN 1955/59		DEPARTMENTAL BIDS 1956/60				ALREADY PROVIDED 1956			PROPOSED PLAN 1956/60				
%	A.R.+	$	%	A.R.+	P.W.D.	REVENUE	LOAN	TOTAL	NEW MONEY 57/60	TOTAL $	%	A.R.+	P.W.D. SHARE
	2.3	4.3		1.4	2.2	0.3	0.8	1.1	1.6	2.7			1.2
	0.3	2.0		0.3	0.7	0.3	0.2	0.5	1.0	1.5			-
	0.7	5.4		1.6	1.7	0.2	1.3	1.5	1.7	3.2			0.8
	0.4	5.5	-	0.4	2.2	1.3	0.3	1.6	3.5	5.1			1.6
	0.2	0.5		0.9	0.6	0.1	0.2	0.3	0.2	0.5			0.3
7.1	3.0	66.4	4.8	0.2	-	4.2	23.5	27.7	32.3	60.0	6.0		-
8.8	6.9	84.1	6.1	4.8	7.4	6.4	26.3	32.7	40.3	73.0	7.3	3.7	3.9
16.1	-	160.0	11.6	-	-	23.0	-	23.0	137.0	160.0	16.0		-
1.9	-1.0	3.4		1.0	-	-	3.4	3.4	5.0	8.4		0.5	-
	0.5	10.0	0.7	-	-	-	-	-	5.0	5.0			-
18.1	-0.5	173.4	12.6	-	-	23.0	3.4	26.4	147.0	173.4	17.3	0.5	-
		10.0	0.7	-	-		10.0	10.0	5.0	15.0	1.5		-
		18.8	1.4	-	-		-	-					-
	0.3	0.6		1.3	0.6	0.6		0.6		0.6			0.6
		3.3		0.3	-	-	-	-	3.3	3.3			0.3
		5.1		-	-	0.4	4.7	5.1	-	5.1			-
		1.6		0.5	0.2	0.1	-	0.1	0.7	0.8			0.2
	0.9	1.5		0.8	1.3	0.4	-	0.4	0.6	1.0			1.0
		0.6		-	-	-	-	-	0.6	0.6			-
1.3	1.2	41.5	3.0	2.9	2.1	1.5	14.7	16.2	10.2	26.4	2.6	2.3	1.8
	7.6	299.0	21.7	8.7	9.5	30.9	44.4	75.3	197.5	272.8	27.2	6.5	5.7

DEVELOPMENT EXPENDITURE 1956/60.

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Revised to confirm with Executive Council
decisions up to November 20 1956.

TOTAL	PROPOSED PLAN 1956/60 NEW MONEY 57/60	PROPOSED PLAN 1956/60 TOTAL $	%	A.R.+	P.W.D. SHARE	NOTES
						Already Provided = 1956 Estimates + A.S.V.'s + 1956 Supplementary Capital Budget. n.r.e. = Net revenue earning. m. = Maintenance costs only. A.R.+ = Additional recurrent expenditure by 1960. All bids for offices which might from part of a planned general Government office building have been transferred to the "Government Sector" under Minister for Works to avoid duplication.
1.1	1.6	2.7			1.2	Allocation to provide for the Department's Priority I & II programmes.
0.5	1.0	1.5			-	Allocation sufficient for the Department's Priority I programme.
1.5	1.7	3.2			0.8	Allocation provides most of the Department's programme apart from reafforestation: Additional recurrent expenditure for forest regeneration programme.
1.6	3.5	5.1			1.6	Includes $3.0 m. Capital for the Fishing Industry and funds for Fresh Water Fry Building Station.
0.3	0.2	0.5			0.3	Funds for transport and buildings. (Allocation proposed is under review).
27.7	32.3	60.0	6.0		-	Performance over past three years has been between $9.0 & $10.0 millions. Allocation therefore restricted because of financial stringency. Allocation includes Federal contribution to State/Settlement D.I.D.N.R. schemes.
32.7	40.3	73.0	7.3	3.7	3.9	
23.0	137.0	160.0	16.0		-	$160.0 m. believed by M.C.I. to be minimum required to meet statutory obligation.
3.4	5.0	8.4		0.5	-	Provision for additional Capital for RIDA. Assumes that present OCSE allocation for RIDA of $4 m. p.a. will be increased by $½ m.
-	5.0	5.0			-	Provision for Government's contribution to Industrial Development Authority Industrial Research Institute and Surveys.
26.4	147.0	173.4	17.3	0.5	-	
10.0	5.0	15.0	1.5		-	This allocation is intended to cover all Land Development whether undertaken by the L.D.A. or the States. L.D.A. may be able to get additional Capital from C.D.C. States may be able to get help from New Planting under Head A2 (i) above. Figure of $18.8 m. for State bids derived from Kedah, Selangor and Negri Sembilan only. I.B.R.D. Allocation is that shewn in the Report for "pilot schemes".
-					-	
0.6		0.6			0.6	New Survey Department H.Q. and other office needs at Alor Star and Kuantan shewn under "Government Sector". Additional Recurrent costs are required for staff to deal with cadastral survey.
-	3.3	3.3			0.3	Costs approximate only and based on I.B.M. figure.
5.1	-	5.1			-	Already approved in the Estimates.
0.1	0.7	0.8			0.2	Additional $0.8 millions may probably be found from C.D.W. Central Research Funds to provide balance of $1.6 m. requested for extension of Mining research.
0.4	0.6	1.0			1.0	Provision, which is largely for accommodation dependent on extent to which Department is expanded. Office bids shewn in "Government Sector".
-	0.6	0.6			-	Balance to be provided by the Canadian Government under the Colombo Plan.
16.2	10.2	26.4	2.6	2.3	1.8	
75.3	197.5	272.8	27.2	6.5	5.7	

MINISTRIES & DEPARTMENTS	I.B.R.D.PLAN 1955/59			DEPARTMENTAL BIDS 1956/60				PROV
	$	%	A.R.+	$	%	A.R.+	P.W.D.	REVENUE
B. **COMMUNICATIONS.**								
1. **Ministry of Transport**								
(i) Roads (Federal)	94.3	12.0	0.6	83.0	6.0	2.5	70.0	2.2
(State)				48.0	3.5		48.0	-
(ii) Road Transport Department				0.4		-	0.4	-
(iii) Railways	23.9	3.1		68.7	5.0	n.r.e.	-	-
(iv) Ports	32.4	4.2		46.5	3.4	n.r.e.	0.9	-
(v) Marine	-		0.3	4.0	0.3	0.3	-	0.04
(vi) Civil Aviation	1.6		0.2	10.9	0.8	0.1	2.3	2.1
(vii) Meteorology	0.5		0.3	0.5		0.1	-	0.04
SUB-TOTAL	152.7	19.6	1.4	262.0	19.0	3.0	121.6	4.4
Ministry of Works, Posts & Telecoms.								
(i) Posts	4.5			4.5		n.r.e.	2.4	0.6
(ii) Telecoms	17.6	2.3		66.8	4.9	"	2.0	1.0
SUB-TOTAL	22.1	2.9		71.3	5.2	-	4.4	1.6
TOTAL: COMMUNICATIONS	174.8	22.5		333.3	24.2	3.0	126.0	6.0
C. **FUEL & POWER.**								
1. **Ministry of Commerce & Industry**								
(i) C.E.B.	71.6	9.2		59.0	4.3	n.r.e.	-	-
2. **Ministry of Natural Resources & local Government.**								
(ii) Penang Municipality	15.2	1.9		21.1	1.5	n.r.e.	-	-
TOTAL: FUEL & POWER	86.8	11.1		80.1	5.8	-	-	-
TOTAL: ECONOMIC DEVELOPMENT	480.6	61.9	9.0	712.4	51.7	11.7	135.5	36.9

B.R.D.PLAN 1955/59		DEPARTMENTAL BIDS 1956/60				ALREADY PROVIDED 1956			PROPOSED PLAN 1956/60					
%	A.R.+	$	%	A.R.+	P.W.D.	REVENUE	LOAN	TOTAL	NEW MONEY 57/60	TOTAL $	%	A.R.+	PWD SHARE	
12.0	0.6	83.0 48.0	6.0 3.5	2.5	70.0 48.0	2.2 -	122.0 -	124.2 -	-49.2	75.0	7.5		62.0	Bi f
		0.4		-	0.4	-	-	-	0.4	0.4			0.4	Al i
3.1		68.7	5.0	n.r.e.	-	-	27.6	27.6	32.4	60.0	6.0		-	Bi (
4.2		46.5	3.4	n.r.e.	0.9	-	37.5	37.5	7.5	45.0	4.5		0.9	$2 P r
	0.3	4.0	0.3	0.3	-	0.04	-	4.04	4.0	4.0			-	Pr i
	0.2	10.9	0.8	0.1	2.3	2.1	0.03	2.1	7.8	10.0	1.0		3.8	Al
	0.3	0.5		0.1	-	0.04	-	0.04	0.5	0.5			0.4	31 C
19.6	1.4	262.0	19.0	3.0	121.6	4.4	187.1	191.5	3.4	194.9	19.4	2.4	67.5	
2.3		4.5 66.8	4.9	n.r.e. "	2.4 2.0	0.6 1.0	0.1 13.9	0.7 14.9	3.8 40.1	4.5 55.0	5.5	n.r.e. "	2.4 2.0	Pr De F
2.9		71.3	5.2	-	4.4	1.6	14.0	15.6	43.9	59.5	5.9		4.4	
22.5		333.3	24.2	3.0	126.0	6.0	201.1	207.1	47.3	254.4	25.4	2.4	71.0	
9.2		59.0	4.3	n.r.e.	-	-	34.0	34.0	25.0	59.0	5.9	n.r.e	-	$2 e p M
1.9		21.1	1.5	n.r.e.	-	-	15.0	15.0	6.1	21.1	2.1	n.r.e.	-	
1.1		80.1	5.8	-	-	-	49.0	49.0	31.1	80.1	8.0		-	
1.9	9.0	712.4	51.7	11.7	135.5	36.9	294.5	331.4	275.9	607.3	60.6	8.9	77.6	

	PROPOSED PLAN 1956/60					
TOTAL	NEW MONEY 57/60	TOTAL $	%	A.R.+	PWD SHARE	
124.2	}-49.2	75.0	7.5		62.0	Bid includes $13.0 m. for plant. Allocation assumes $10.0 millions for plant and remainder for State and Federal Roads.
-						
-	0.4	0.4			0.4	Allocation to Complete Road Transport Department Offices & inspection bays.
27.6	32.4	60.0	6.0		-	Bid would provide for modernisation of railway. Balance of cost (amount not yet known) would be found from Railway's own resources.
37.5	7.5	45.0	4.5		0.9	$29./ m. already provides for North Klang Straits. Balance for Penang, Kota Bharu and improvements to Malacca, PWD share for reads connected with Kota Bharu project.
4.04	4.0	4.0			-	Provision for new Launches; also two additional dredgers necessary if Kota Bharu Port scheme is to be proceeded with.
2.1	7.8	10.0	1.0		3.8	Allocation provides $6 m. for first phase of extension of K.L. Airport and $1.0 m. for investment in Malayan Airways together with other minor projects.
0.04	0.5	0.5			0.4	$130,000 may be met from balance of joint Federation/Singapore C.D.W. allocation for storm detecting equipment.
191.5	3.4	194.9	19.4	2.4	67.5	
0.7 14.9	3.8 40.1	4.5 55.0	5.5	n.r.e. "	2.4 2.0	Provision of K.L. and Penang G.P.O's shown under "Govt. Sector". Departmental programme is based on meeting public demand. Financial stringency prevents allocation in full.
15.6	43.9	59.5	5.9		4.4	
207.1	47.3	254.4	25.4	2.4	71.0	
34.0	25.0	59.0	5.9	n.r.e	-	$25.0 m. proposed for 1958-60 as Federation contribution either to first phase of Cameron Highlands Hydro-electric project or to some alternative scheme not yet decided on. More funds will be required after 1960 to complete.
15.0	6.1	21.1	2.1	n.r.e.	-	
49.0	31.1	80.1	8.0		-	
331.4	275.9	607.3	60.6	8.9	77.6	

MINISTRIES & DEPARTMENTS	I.B.R.D. PLAN 1955/59			DEPARTMENTAL BIDS 1956/60				ALREA PROVIDED	
	$	%	A.R.+	$	%	A.R.+	P.W.D.	REVENUE	LOA
III. SOCIAL DEVELOPMENT.									
1. Ministry of Education.									
(i) General	54.0	7.0	41.7	125.0	9.1	58.0	100.0	17.5	20.
(ii) University	3.0			3.0		n.a.	-	3.0	-
(iii) Miscellaneous	1.6			0.4		n.a.	-	-	-
SUB-TOTAL	58.6	7.6	41.7	128.4	9.3	58.0	100.0	20.5	[illegible]
2. Ministry of Health & Social Welfare.									
(i) Medical	37.0	4.8	12.1	57.5	4.2	10.2	52.5	2.6	2.
(ii) Social Welfare	3.1		2.2	3.6		0.7	3.6	0.6	0.
SUB-TOTAL	40.1	5.2	14.3	61.1	4.4	10.9	56.1	3.2	2.
3. Ministry of Labour.									
(i) Labour Department	1.0		1.5	0.5	0.04	0.5	0.5	0.1	-
(ii) Machinery	-		-	-		0.2	-	-	-
SUB-TOTAL	1.0	0.1	1.5	0.5	0.04	0.7	0.5	0.1	-
4. Ministry of Natural Resources & Local Government.									
(i) Town Planning Department	-		0.3	0.3		0.3	0.1	-	-
(ii) Housing Trust & F.C.B.S.	17.0	2.2		12.5	0.9	-	-	-	12.
(iii) Low Cost Rental Housing	-			50.0	3.6	-	-	-	10.
(iv) Petaling Jaya	6.0			6.0		-	-	-	4.
(v) Municipalities	11.5	1.5		50.8	3.7	-	-	-	21.
(vi) Town Boards & Town Councils	5.0			5.0		-	-	-	-
(vii) Fire Services	-			0.1		0.1	-	-	0.
SUB-TOTAL	39.5	5.1	0.3	124.7	9.1	0.4	0.1	-	47.

D. PLAN 55/59		DEPARTMENTAL BIDS 1956/60				ALREADY PROVIDED 1956			PROPOSED PLAN 1956/60				
%	A.R.+	$	%	A.R.+	P.W.D.	REVENUE	LOAN	TOTAL	NEW MONEY 57/60	TOTAL $	%	A.R.+	P.W.D. SHARE
7.0	41.7	125.0	9.1	58.0	100.0	17.5	20.7	38.2	51.8	90.0	9.0		55.0
		3.0		n.a.	-	3.0	-	3.0	2.0	5.0			-
		0.4		n.a.	-	-	-	-	0.4	0.4			-
7.6	41.7	128.4	9.3	58.0	100.0	20.5	20.7	41.2	54.2	95.4	9.5	42.0	55.0
4.8	12.1	57.5	4.2	10.2	52.5	2.6	2.3	4.9	45.1	50.0	5.0	7.0	25.0
	2.2	3.6		0.7	3.6	0.6	0.2	0.8	2.2	3.0		0.5	3.0
5.2	14.3	61.1	4.4	10.9	56.1	3.2	2.5	5.7	47.3	53.0	5.3	7.5	28.0
	1.5	0.5	0.04	0.5	0.5	0.1	-	0.1	0.4	0.5			0.5
	-	-		0.2	-	-	-	-	-	-			-
0.1	1.5	0.5	0.04	0.7	0.5	0.1	-	0.1	0.4	0.5		0.4	0.5
	0.3	0.3		0.3	0.1	-	-	-	0.3	0.3			0.1
2.2		12.5	0.9	-	-	-	12.5	12.5	-	12.5	1.2		-
		50.0	3.6	-	-	-	10.0	10.0	10.0	20.0	2.0		-
		6.0		-	-	-	4.0	4.0	2.0	6.0			2.0
1.5		50.8	3.7	-	-	-	21.3	21.3	18.7	40.0	4.0		-
		5.0		-	-	-	-	-	5.0	5.0			-
		0.1		0.1	-	-	0.1	0.1	-	0.1			-
5.1	0.3	124.7	9.1	0.4	0.1	-	47.9	47.9	36.0	83.9	8.4	0.3	2.1

Y 1956		PROPOSED PLAN 1956/60					
	TOTAL	NEW MONEY 57/60	TOTAL $	%	A.R.+	P.W.D. SHARE	
7	38.2	51.8	90.0	9.0	[illegible]	55.0	Departmental bid is based on the White Paper. But full provision cannot be proposed, save by dis-proportionately severe cuts in allocations to many other Ministries. Economies in building and capital contributions from local authorities and/or the public would therefore appear essential if all schools needs are to be met. Allocation proposed envisages that about $55.0 millions of work will be put out to P.W.D. and about $20.0 millions to private contractors.
	3.0	2.0	5.0			-	
	-	0.4	0.4			-	Govt. contribution to Boy Scout's Association and Adult Education Centre.
	41.2	54.2	95.4	9.5	42.0	55.0	
5	4.9	45.1	50.0	5.0	7.0	25.0	Minister should propose priorities within allocation between Rural Health Centres, Dental Service, capital works on existing hospitals and new teaching hospital for K.L. Limitation of finance precludes an allocation sufficient to meet all needs in first five years. P.W.D. share should be about $25.0 millions and about $20.0 millions put out to private contractors.
2	0.8	2.2	3.0		0.5	3.0	
5	5.7	47.3	53.0	5.3	7.5	28.0	
	0.1	0.4	0.5			0.5	Office Accommodation at Kuala Lipis, Segamat, Lumut & Muar. Other Office accommodation included under "Govt. Sector".
	-	-	-			-	Bids for Offices included under "Govt. Sector".
	0.1	0.4	0.5		0.4	0.5	
	-	0.3	0.3			0.1	Provision of Branch office, Johore Bahru and allocation for survey of housing needs. Other office bids included in "Govt. Sector".
5	12.5	-	12.5	1.2		-	
0	10.0	10.0	20.0	2.0		-	It is doubtful whether more than $20 millions can actually be spent by 1960.
0	4.0	2.0	6.0			2.0	Additional funds required to improve Petaling Jaya water supply.
3	21.3	18.7	40.0	4.0		-	Excludes Penang Electricity & Kuala Lumpur Sewerage which are shewn separately.
	-	5.0	5.0			-	Provision for Capital Works for Town Councils. Capital grants to local Councils carried under OCAR.
1	0.1	-	0.1			-	Already approved.
9	47.9	36.0	83.9	8.4	0.3	2.1	Sub-Total for "A.R.+" in I.B.R.D. does not tally completely with Sub-Totals owing to minor discrepancy of $1.2 m. in Tables in I.B.R.D. Report.

MINISTRIES & DEPARTMENTS	I.B.R.D. PLAN 1955/59			DEPARTMENTAL BIDS 1956/60				ALREADY PROVIDED	
	$	%	A.R.+	$	%	A.R.+	P.W.D.	REVENUE	LOA
5. Chief Minister & Minister for Home Affairs.									
(i) Census	2.0			2.8		-	-	0.1	-
(ii) Statistics	-			0.5		0.2	-	-	0.1
(iii) Film Unit	-			0.7		-	0.7	0.7	-
(iv) Broadcasting	1.8			1.3		0.2	-	0.2	-
(v) Merdeka Stadium	-			2.0		-	2.0	-	-
SUB-TOTAL	3.8	0.5		7.3	0.5	0.4	2.7	1.0	0.1
6. Minister for Works, Posts & Telecommunications.									
(i) K.L. water supply	39.0	5.0		16.6	1.2	-	16.6		8.8
(ii) Other water supplies				103.7	7.5	-	103.7		11.8
(iii) Sewerage				25.6	1.9	-	25.6		-
7. Minister for Natural Resources & Local Government.									
K.L. sewerage				9.9		-	-		9.9
SUB-TOTAL	39.0	5.0		155.8	11.3	-	145.9		30.5
TOTAL: SOCIAL DEVELOPMENT	182.0	23.5	59.0	477.8	34.7	70.4	305.3	24.8	101.7
II. GOVERNMENT SECTOR.									
1. Attorney-General.									
Courts	-			2.7		m.	2.7	0.02	-
2. Chief Minister & Minister for Home Affairs.									
Prisons	-			5.0		m.	5.0	-	-
3. Minister for Internal Defence & Security.									
Police	-			36.5	2.7	m.	36.5	14.0	-
4. Minister for Works, Posts & Telecommunications.									
(i) Office & other Govt. Buildings	35.0	4.5		23.1	1.7	m.	23.1	2.9	-
(ii) Housing				20.7	1.5	m.	20.7	14.2	3.0
(iii) Labour lines				31.0	2.3	m.	31.0	0.8	-

. B. R. D. PLAN 1955/59			DEPARTMENTAL BIDS 1956/60				ALREADY PROVIDED 1956			PROPOSED PLAN 1956/60				
	%	A.R.+	£	%	A.R.+	P.W.D.	REVENUE	LOAN	TOTAL	NEW MONEY 57/60	TOTAL £	%	A.R.+	P.W.D. SHARE
.0			2.8		-	-	0.1	-	0.1	2.7	2.8			-
-			0.5		0.2	-	-	0.1	0.1	0.4	0.5		0.2	-
-			0.7		-	0.7	0.7	-	0.7	-	0.7		-	0.7
.8			1.3		0.2	-	0.2	-	0.2	3.6	3.8		0.7	0.3
-			2.0		-	2.0	-	-	-	2.0	2.0		-	2.0
8	0.5		7.3	0.5	0.4	2.7	1.0	0.1	1.1	8.7	9.8	0.7	0.9	3.0
			16.6	1.2	-	16.6		8.8	8.8	7.8	16.6	1.7		16.6
			103.7	7.5	-	103.7		11.8	11.8	23.2	35.0	3.5		35.0
			25.6	1.9	-	25.6		-	-	5.0	5.0	-		5.0
0	5.0													
			9.9		-	-		9.9	9.9	-	9.9			-
0	5.0		155.8	11.3	-	145.9		30.5	30.5	36.0	66.5	6.6		56.6
0	23.5	59.0	477.8	34.7	70.4	305.3	24.8	101.7	126.5	182.6	309.1	30.5	51.1	145.2
			2.7		m.	2.7	0.02	-	0.02	1.0	1.0	-	-	1.0
			5.0		m.	5.0	-	-	-	-	-	-	-	-
			36.5	2.7	m.	36.5	14.0	-	14.0	6.0	20.0	2.0	-	20.0
			23.1	1.7	m.	23.1	3.9	-	3.9	11.1	15.0	1.5	-	15.0
	4.5		20.7	1.5	m.	20.7	14.2	3.0	17.2	2.0	19.2	1.5	-	19.2
			31.0	2.3	m.	31.0	0.8	-	0.8	15.0	15.8	1.6	-	15.8

	PROPOSED PLAN 1956/60					
AL	NEW MONEY 57/60	TOTAL $	$	A.R.+	P.W.D. SHARE	
0.1	2.7	2.8			-	Part of total may be recoverable from Singapore Government.
0.1	0.4	0.5		0.2	-	Provision for C.O.L. Survey & improved Statistical Service.
0.7	-	0.7		-	0.7	Completion of Broadcasting Network and about $2½ m. for the acquisition of BBC Transmitter at Tebrau. This project now under review; may be replaced by building a local transmitter of less cost.
0.2	3.6	3.8		0.7	0.3	
-	2.0	2.0		-	2.0	Already approved.
1.1	8.7	9.8	0.7	0.9	3.0	
8.8	7.8	16.6	1.7		16.6	} Allocation based on present capacity of P.W.D.
11.8	23.2	35.0	3.5		35.0	}
-	5.0	5.0	-		5.0	Sewerage schemes dependent on provision of specialised staff.
9.9	-	9.9			-	Already approved.
30.5	36.0	66.5	6.6		56.6	
26.5	182.6	309.1	30.5	51.1	145.2	
0.02	1.0	1.0	-	-	1.0	Bid includes $0.2 m. for Public Trustee
-	-	-	-	-	-	Bid relates to replacement of Pudu Prison. Should be deferred until after 1960.
14.0	6.0	20.0	2.0	-	20.0	Limitations of Finance & P.W.D. capacity preclude allocation of requirements in full.
3.9	11.1	15.0	1.5	-	15.0	Bids for offices & other buildings cover Survey Dept. H.Q., G.P.O., K.L. & Penang, Govt. offices K.L. & Petaling Jaya, Parliament Building & Govt. Offices in Ipoh, Penang, Kuantan, Alor Star, Malacca & Seremban, Kota Bharu, & Kuala Trengganu. (includes bids by Town Planning Geological Survey, Labour, Machinery, Co-op., & Survey Departments). Limitations of Finance & P.W.D. capacity preclude allocation of requirements in full.
17.2	2.0	19.2	1.5	-	19.2	Government cannot afford to continue house building on the same scale as in the past. Policy should be reviewed.
0.8	15.0	15.8	1.6	-	15.8	It is estimated that $30 millions are required to bring Govt. Labour Lines up to standards laid down in Labour Code. Policy should be reviewed here also but in meantime something must be done to improve existing living conditions. Provision of $2.0 m. of new money is for housing for "pool" quarters only.

MINISTRIES & DEPARTMENTS	I.B.R.D. PLAN 1955/59			DEPARTMENTAL BIDS 1956/60				ALREAD PROVIDED	
	$	%	A.R.+	$	%	A.R.+	P.W.D.	REVENUE	LOA
4. Minister for Works, Posts & Tele-communications (contd.)									
(iv) P.W.D. Workshops	5.0			5.3		m	4.0	-	0.
SUB-TOTAL	40.0	5.1		80.1	5.8	[illegible]	78.8	18.9	3.
5. Minister of Finance.									
Customs	-	-		11.0	0.8	m.	10.3	2.3	-
6. Chief Minister & Minister for Home Affairs.									
(i) Move of Selangor Capital	-	-		27.0	2.0	-	?	-	-
(ii) Information	-	-		0.2	-	-	-	-	0.
SUB-TOTAL	-	-		27.2	2.0	-	-	-	0.
7. Chief Secretary.									
Government Printer	-	-		0.6	-	-	0.2	-	-
Foreign Service									
TOTAL: GOVERNMENT SECTOR	40.0	5.18		163.1	12.0	-	133.5	35.7	3.
IV. STATE SCHEMES.									
Miscellaneous	-	-		20.6	1.5	-	-	-	-
GRAND TOTAL: DEVELOPMENT PLAN	702.6	90.5	68.0	1,373.9	100.0	80.8	574.3	97.4	399.
Armed Forces	-	-	-	173.5	-	61.0	90.0	(See	Notes
Reserve	74.0	9.5	-						
GRAND TOTAL: CAPITAL PROGRAMME	776.6	100.0	68.0	1,547.4	-	141.8	664.3	97.4	399.

The allocations set out in this Programme are intended to be provis
to prepare specific programmes within these allocations for approval by Ex
outcome of the London Financial Talks and the financial situation.

Although for ease of reference and discussion Allocations are shown
that they should be regarded at the present stage as 'Provisional Allocati
to reapportion their allocations between their Departments when submitting
approval.

I.B.R.D. PLAN 1955/59			DEPARTMENTAL BIDS 1956/60				ALREADY PROVIDED 1956			PROPOSED PLAN 1956/60				
$	%	A.R.+	$	%	A.R.+	P.W.D.	REVENUE	LOAN	TOTAL	NEW MONEY 57/60	TOTAL $	%	A.R.+	P. SH
5.0			5.3		m	4.0	-	0.3	0.3	3.0	3.3	-	-	
40.0	5.1		80.1	5.8		78.8	18.9	3.3	22.2	31.1	53.3	5.3	-	5
-	-		11.0	0.8	m.	10.3	2.3	-	2.8	2.2	5.0	-	-	
- -	- -		27.0 0.2	2.0 -	- -	? -	- -	- 0.2	- 0.2	1.0 -	1.0 0.2	- -	- -	
-	-		27.2	2.0	-	-	-	0.2	0.2	1.0	1.2	-	-	
-	-		0.6	-	-	0.2	-	-	-	0.6 ?	0.6 ?	-	- 5.0	(
40.0	5.18		163.1	12.0	-	133.5	35.7	3.5	39.2	41.9	80,1	8.0	5.0	78
-	-		20.6	1.5	-	-	-	-	-	10.0	10.0	1.0	-	
02.6	90.5	68.0	1,373.9	100.0	80.8	574.3	97.4	399.7	497.1	510.4	1,007.5	100.0	65.0	300
- 74.0	- 9.5	- -	173.5	-	61.0	90.0	(See Notes)		-	(60.0) (32.5)	(60.0) (32.5)	-	25.0	(60
76.6	100.0	68.0	1,547.4	-	141.8	664.3	97.4	399.7	497.1	602.9	1,000.0	-	90.0	360

The allocations set out in this Programme are intended to be provisional only. The next stage would be for Ministers o prepare specific programmes within these allocations for approval by Executive Council. Final approval would depend on utcome of the London Financial Talks and the financial situation.

Although for ease of reference and discussion Allocations are shown against each Department or subject it is intended hat they should be regarded at the present stage as 'Provisional Allocations to Ministries'. Ministers would be at liberty o reapportion their allocations between their Departments when submitting their detailed programme to Executive Council for pproval.

EADY DED 1956		PROPOSED PLAN 1956/60					
LOAN	TOTAL	NEW MONEY 57/60	TOTAL $	%	A.R.+	P.W.D. SHARE	
0.3	0.3	3.0	3.3	-	-	2.5	
3.3	22.2	31.1	53.3	5.3	-	52.5	
-	2.8	2.2	5.0	-	-	4.3	$10.7 m. for replacement of launches. Remainder for Housing for Staff and new stations.
- 0.2	- 0.2	1.0 -	1.0 0.2	- -	- -	? -	Cost not known. Token Provision only. Balance will have to be met from "Reserve". Other items not yet included are official Residence from Head of State ($2 m.?) and new Parliament House. ($10 m.?)
0.2	0.2	1.0	1.2	-	-	-	
-	-	0.6 ?	0.6 ?	-	- 5.0	0.2	Provision for new Office & Equipment, Alor Star & Govt. Printing School. Latter is important from commercial angle. Capital needs for Foreign Service (to come from Reserve) are tentatively estimated at $7 m.
3.5	39.2	41.9	80.1	8.0	5.0	78.0	
-	-	10.0	10.0	1.0	-	?	
399.7	497.1	510.4	1,007.5	100.0	65.0	300.8	
otes)	-	(60.0) (32.5)	(60.0) (32.5)	-	25.0	(60.0)	The reserve allocation in the I.B.R.D.Plan includes $14 m. for resettlement. Bid of $173.5 m. for Armed Forces represents total sum originally requested for Phases I and II of new plans for expansion, over and above the $38 m. remaining in the United Kingdom grant. The Capital programme for Armed Forces is now under review in light of proposed restriction of recurrent expenditure to $70 m. p.a. (i.e. $25 m. over present planned figure). Proposed Capital allocation of $60 m. is therefore tentative. It is not intended to cover gifts or loans of arms, equipment, etc. in kind.
399.7	497.1	602.9	1,000.0	-	90.0	360.8	

visional only. The next stage would be for Ministers
Executive Council. Final approval would depend on

wn against each Department or subject it is intended
tions to Ministries'. Ministers would be at liberty
ing their detailed programme to Executive Council for